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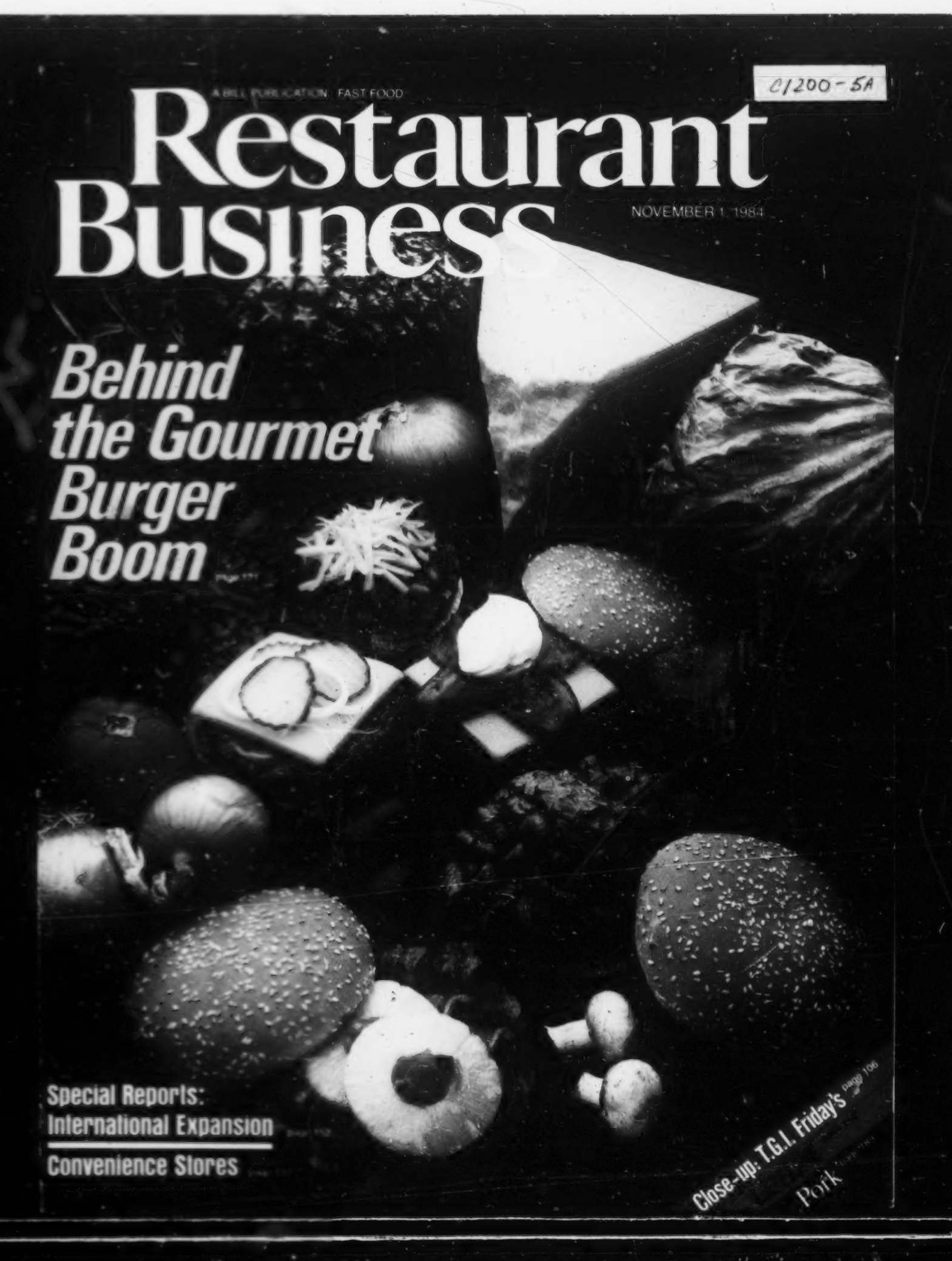

## Behind the Gourmet Burger Boom

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November 1, 1984

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*Cover photo supplied by Round the Corner, Boulder, Colorado*

Restaurant Business Cover Story

# Behind the Gourmet Burger Boom

by Jacque Kochak

Changing demographics indicate that more than 50 percent of the U.S. population is over 30 years old. The result is that a generation raised on fast food hamburgers has come of age. Indeed, the generation that made theme restaurants a phenomenon of the 70s, is further shaping foodservice history. Anxious to fill the void between fast food and casual adult dining are a proliferation of concepts developed by chains and independents alike. These emerging "gourmet burger" restaurants are positioned to appeal to both singles and families with high quality food and liquor served quickly in comfortable, casual surroundings. The gourmet burger market represents big business and the units, whether self-service or table service, have the potential for generating million dollar sales annually.

*Freshly ground beef, freshly baked buns, and condiments galore characterize the basic "gourmet burger" concept.*

While the fast food hamburger chains are making national headlines with their celebrated "battle of the burgers" campaign, another war is being waged in the mid price segment by the emerging "gourmet burger" concepts which are positioning themselves between the low price self-serve chains and the high-price full-service dinner houses.

A number of large foodservice companies are among the players; some see an opportunity for profitable diversification, while others hope to breathe life into sagging sales by converting existing concepts.

Pillsbury, owner of Burger King, has J.J. Muggs. Saga Corp. acquired Spoons last August. Diversifoods, operator of Chart House and Godfather's Pizza and a major Burger King franchisee, has Moxie's. Pizza Inn is expanding J.T. McCord's. Victoria Station developed Bonkers. Sea Galley Stores, Inc. has Flakey Jake's. New York City-based Beefsteak Charlie's is converting some units to a concept called Daly's Dandelion. Magic Pan is expanding its offering. Laredo's. And, T. Twiggs has arrived as Greyhound's offering.

W.R. Grace has entered the fray with its own variation on the theme, called T.J. Applebee's. T.J. Applebee's serves a good deal more than burgers, but goes after the same market staked out by the others. Church's is testing a concept called Keeper's positioned between the gourmet burger places and fast food. And Collins Foods has entered into a joint venture with Phoenix-based Big Four Restaurants and Chicago-based Lettuce Entertain You Enterprises to introduce Ed Debevic's Short Order Deluxe. The partners prefer to be distinguished from the purveyors of gourmet burgers and say that Ed Debevic's is patterned on a 1950s diner, but Ed Debevic's seeks the same customer as the others, and with the same enticements.

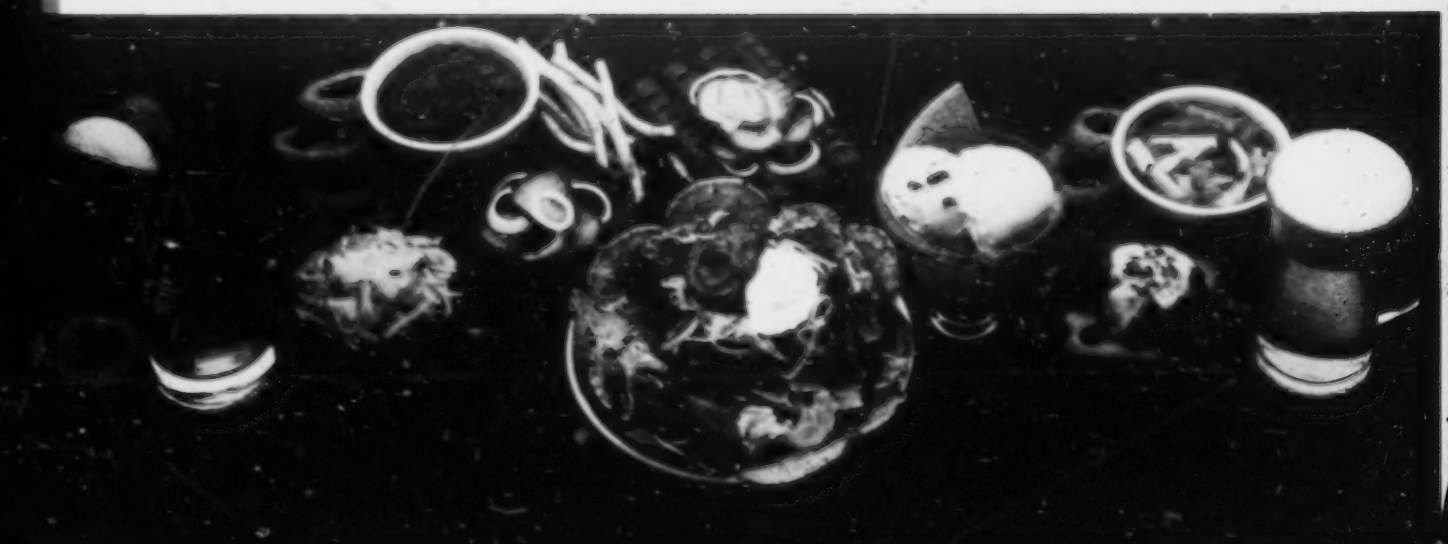
Independents are proliferating as well. National attention first focused on the phenomenon when Norman Brinker, then president of Pillsbury's restaurant group, left his post to take over the helm of one of these small chains, Chili's. Another company, much-copied Dallas-based Fuddrucker's, is holding its own against all comers, and Bojangles' cofounder Richard Thomas has opened the first of what will be a chain, called R. Thomas' Hamburger Cafe, in Greenville, North Carolina.

Down in Texas, where Fuddrucker's and Chili's began, gourmet burger concepts are everywhere. They range from Purdy's and Pedunkle's in Austin (both recently involved in litigation with Fuddrucker's), to The Butcher Shop in Longview, Rusty's in Corpus Christi, and The Hamburger Construction Company in Lubbock.

Actually, "gourmet burgers" have been around for quite some time, but only recently have captured national attention. Hamburger Hamlet in Beverly Hills, with 22 units, has been purveying upscale burgers since 1950. Round the Corner Restaurants originated in Boulder in 1968, and now boasts 30 units in six metro markets. And Seattle-based Red Robin Restaurants, founded in 1969, now has 22 units, annual sales of almost $40 million.

So, what is a gourmet burger? The answer depends on the concept, but generally speaking gourmet burger concepts serve high quality food (fresh ground beef, fresh baked buns and desserts, often prepared in display butcher shops and kitchens), at reasonable prices (a $5 or $6 check average is common). The quick service in comfortable, casual surroundings is more reminiscent of theme restaurants than of fast food outlets. The concepts typically serve liquor, the food/liquor ratio depending on the particular slant of the operation. Yet families are welcome.

Although hamburgers are their specialty, these units are unlike fast food operations in several ways: av-



**Top:** *Open dining rooms with woods and brass highlight Round the Corner's dining room.*
**Bottom:** *Round the Corner's menu reflects 15 years of development with a broad selection of burgers.*

erage checks are higher; atmosphere is upscale; and there is more emphasis on food quality. The gourmet burger customer tends to be different from the fast food customer, too. "Fast food customers are primarily young families, people interested in convenience, and tend to be more blue collar. We don't get many blue-collar customers," says Greg Owen, vice president of operations for Pizza Inn subsidiary Flagship Inc., which operates J.T. McCord's.

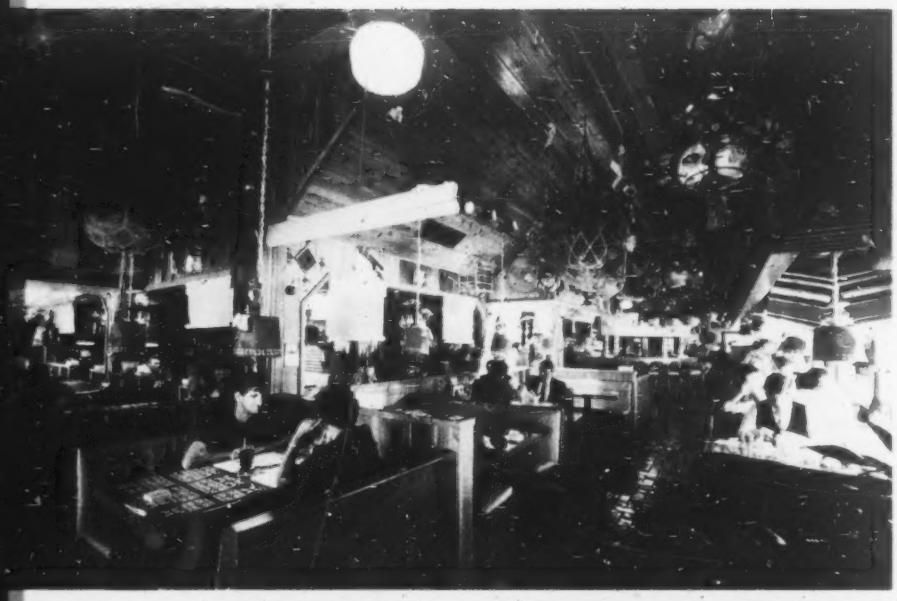
The gourmet burger restaurants are unlike mid-price theme restaurants—like Houlihan's or TGI Friday's—because they are not as likely to be destination points; though this varies with the concept. In addition, menus are generally more limited, check averages are substantially lower, and service time is faster. Their strongest selling point is their customer-perceived, attractive price/value relationship. At any one of these concepts, the customer gets a lot of good food for the money.

Decor themes tend to fall into three categories. Many of the full-service concepts offer Southwestern decor along with menus offering Southwestern specialties. Others offer 50s surroundings, with black and white tile, lots of neon, and 50s memorabilia. Still others opt for open, airy, sophisticated environments with lots of plants and wood like their upscale cousins.

Some operators say that gourmet burger outfits are filling a void in the market. "If you draw a continuum, you have fast food at one end, then as you move along there is a space between fast food and casual adult dining. It is that space we are attempting to fill," says Karen Eadon, vice president of marketing for W.R. Grace's fast food division, Creative Food 'N Fun, which operates T.J. Applebee's and Del Taco Mexican Cafes. She notes that T.J. Applebee's, modeled after a neighborhood pub, is closer on the continuum to casual adult dining (like Houlihan's or Friday's) while Del Taco, once a typical fast food concept, boasts a new expanded menu and upgraded decor and is moving into the void from the fast food end of the continuum.

If this void in the market indeed exists, why has it not been filled before? The answer, say operators, is changing demographics. The void was once insignificant. Ten years ago, the average age of the fast food customer was 16, says Eadon. Those kids grew up on hamburgers and french fries at McDonald's and Burger King.

Today, more than 50 percent of the U.S. population is over 30. Twenty years from now, demographers say, more than 60 percent will be over 30, if present trends continue. This is the generation that made theme restaurants a phenomenon of the 70s, but they still like burgers and fast service. However, they



**Top:** *Spoons' burger-and-Mexican menu brings in $2 million in sales a year.*
**Center:** *"San Francisco" decor distinguishes R. Thomas Hamburger Cafe.*
**Bottom:** *Bonkers resembles a 50's style diner car.*

sometimes want a bit more sophistication, a bit more quality, and a bit more atmosphere than the typical fast food outlet can offer. They want convenience, they want to take their children, but they don't want to feel as though they are being impersonally shuffled through on an assembly line.

Critics ask whether this customer really wants to spend $3.50 for a hamburger. "People sometimes forget that demographics does not abolish economics; people have only so much money to spend, and 'fancy-burgers' are probably not a high priority in their spending plans," says an observer writing recently in *Forbes* Magazine.

Yet 21-to 49-year-old consumers, the group all the gourmet burger concepts seek to attract, control two-thirds of disposable income even though they number only one-third of the population, says Grace's Eadon. They have amply demonstrated their propensity for eating out, largely because over 50 percent of women are now employed outside the home and one- and two-person households continue to grow.

A more serious criticism is that perhaps too many operators are jumping in to fill what may be a limited market niche. Predictions about the size of the potential market are pure guesswork, but Michael Culp, a restaurant analyst with Prudential-Bache, says this: "If the hamburger market is now $20 billion, the gourmet burger business could easily be 15 percent that size. Even $3 billion would allow 3,000 $1 million units to open."

It has been estimated that no more than 150 gourmet burger units are now open, so that allows plenty of room for growth. "What we have is a lot of people going into the segment, but not a lot of units yet,"

**Top:** *S&A Corp.'s J.J. Muggs prototype.*
**Center:** *T.J. Applebee's pub atmosphere attracts higher liquor sales.*
**Bottom:** *J.T. McCords features a broad and seasonal menu.*

Culp adds: "I'm not terribly concerned about too much competition yet." The early bird may get the worm, though Culp cautions that he suspects a couple of big surprises—slow starters who grab a big share of the market.

Right now, the front runners are clearly Chili's, with 32 units and plans to grow 50 percent a year; Saga's Spoons, with six units open and plans to open 25 more in fiscal 1985; Diversifood's Moxie's, with two units open now and plans to open 50 units by the end of 1985; Fuddrucker's, with 65 to 75 units to be opened by the end of 1984; and Sea Galley's Flakey Jake's, with 10 units open and plans to open over 200 franchised units and 75 company stores in the next four years.

Receiving less press but healthy, well-established, and looking for growth are Hamburger Hamlets, Round the Corner, and Red Robin restaurants.

The concepts fall into two categories: full-service and self-service. The full-service concepts generally offer broader menus and combine their variety of hamburgers with Tex-Mex offerings like nachos and burritos or other popular light foods. Falling into this group are, among others, Chili's, Moxie's, T.J. Applebee's, J.T. McCord's, and J.J. Mugg's.

"Self-service vs. table service is a major line of demarcation," says Chili's executive vice president, Ron McDougall. "Recently we asked our customers where they would go if they couldn't go to Chili's, and they said places like Bennigan's or Friday's. They wouldn't go to Fuddrucker's because it's not a direct competitor."

The self-service concepts frequently bear a resemblance to the five-year-old Fuddrucker's, grand-

*Exhibition kitchens, butcher shops, bake shops, and produce displays add ambiance to the self-serve burger concepts.*

daddy of the genre—and that has been the cause of several lawsuits. Fuddrucker's has an extremely limited menu, and one analyst says he sees this as a weakness of the concept—that it is so easily copied. The narrower the menu, the less proprietary the concept. In addition to Flakey Jake's and Purdy's, Fuddrucker's reportedly has at one time or another been involved in litigation with restaurants all over Texas.

Some of the self-service concepts offer the alluring operational advantage of low labor costs combined with yearly gross volumes comparable to theme restaurants, thanks to the addition of liquor sales. Some critics see that as a disadvantage, however. "I think that all of the cafeteria style concepts will have to initiate limited waitress service eventually," says Cain. "The consumer is being forced to do too much of the work. When you run an 18 percent labor to sales ratio, that's telling you something."

Some of the more original concepts combine self-service and table service. At a Round the Corner restaurant, for instance, a customer places his order via a telephone at the table. When his order is ready in six to eight minutes, the phone buzzes and the customer picks up and pays for his order at the counter. At Ed Debevic's Short Order Deluxe, customers place their order at the counter, but "service attendants" on the floor check with customers who wish to order additional items so they only have to go through the line once.

Just as service styles are evolving, menus are evolving. A trend to broadening menus somewhat is already apparent. Chili's has expanded its menu to the point that its top-selling entrees aren't even burgers, though overall the chain sells more burgers than anything else. In fact, executive vice president McDougall says Chili's is trying to leave behind the "gourmet burger" name because the idea has become so trendy.

As a result of litigation with Fuddrucker's, Flakey Jake's has expanded its menu, which is seen by some as strengthening the concept. When Saga bought Spoons, consumer research indicated a need to add menu items, and the selection was increased from six hamburgers to 12. Round the Corner recently added a special dinner menu to increase evening sales, and Red Robin has added a brunch.

Ultimately, the concepts that succeed and grab a significant share of the market will do it the old-fashioned way: by offering quality food, good service, and the perception of value.

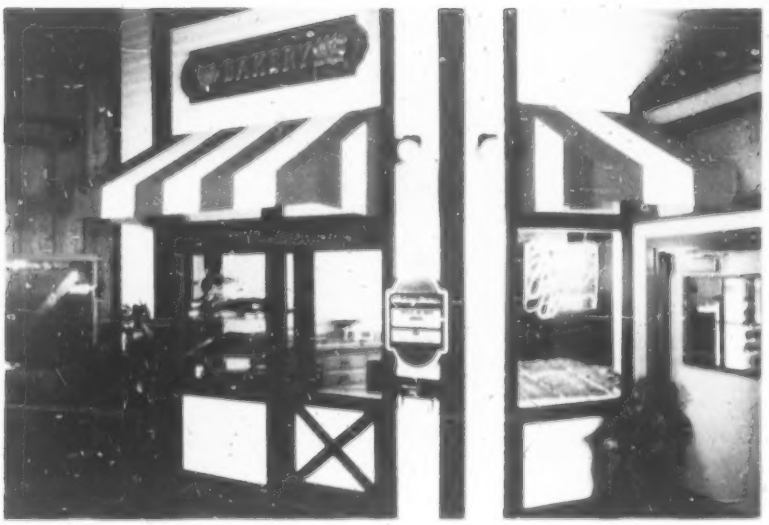
"To succeed in the 80s, a restaurant needs a product with a high-quality image, moderate pricing, quick and efficient service, a fun concept with visual appeal, high volume and great carry-out potential, and a limited, competitive menu with the potential to expand," says Lee Cohn, president of Ed Debevic's co-creator Big Four Restaurants.

So far, all of the entries in the race for market share are well-groomed to compete. Following is a round-up of the leading contenders.

## Full-service

Beverly Hills-based Hamburger Hamlet opened the first gourmet burger concept three decades ago as a showcase for Harry Lewis, who was under contract with Warner Brothers. Lewis and his new wife Marilyn intended to feed actors, writers, and agents at their one unit, but were not really interested in making a career of the restaurant business. The concept, however, was so popular that gradually, one by one, the Lewises opened new units. The chain now numbers 22 units (17 in the Los Angeles area, four in Washington, D.C., and one in Chicago). Five more units will be opening in the next 12 months.

Marilyn Lewis notes that Hamburger Hamlet existed for 15 years "quite alone" in the gourmet burger niche. Then, casual theme restaurants, such as Houlihan's and TGI




*Rolls, cookies, and brownies are prepared in Flakey Jake's bakery.*

Friday's, similar in many ways to a Hamburger Hamlet, became popular. Still, there were no direct competitors until recently.

Lewis contends that the grown-up baby boomers who have eaten burgers since they were toddlers are the owners of gourmet burger restaurants as well as the customers. "They're young people who have grown up and joined giant corporations. They're looking around for opportunity and saying 'here's the hamburger,' but fast food is saturated. Everybody is on to our act now," Lewis says.

Hamburger Hamlets' menu is built around 14 hamburgers, chili, and fresh desserts. One burger is topped with sauteed mushrooms, sour cream, and scallions; another with caviar and Russian dressing; yet another with fried oysters and salted peanuts; and still another with melted brie and toasted almonds. Prices are $3.95 for a 6 oz. burger and $4.95 for an 8 oz. burger, with toppings $1 extra. Average check is about $8 per person.

Average check is boosted by add-ons such as lobster bisque and onion soup fondue, as well as desserts ranging from fudge layer cake to cherry cobbler to rice pudding, baked apple, egg custard, and apple pie with cinnamon stick ice cream. The menu also includes salads, a choice New York strip steak, a chicken prepared on a rotisserie, sandwiches, and a variety of vegetables including ratatouille, mushroom casserole, and mile-high vegetable pie.

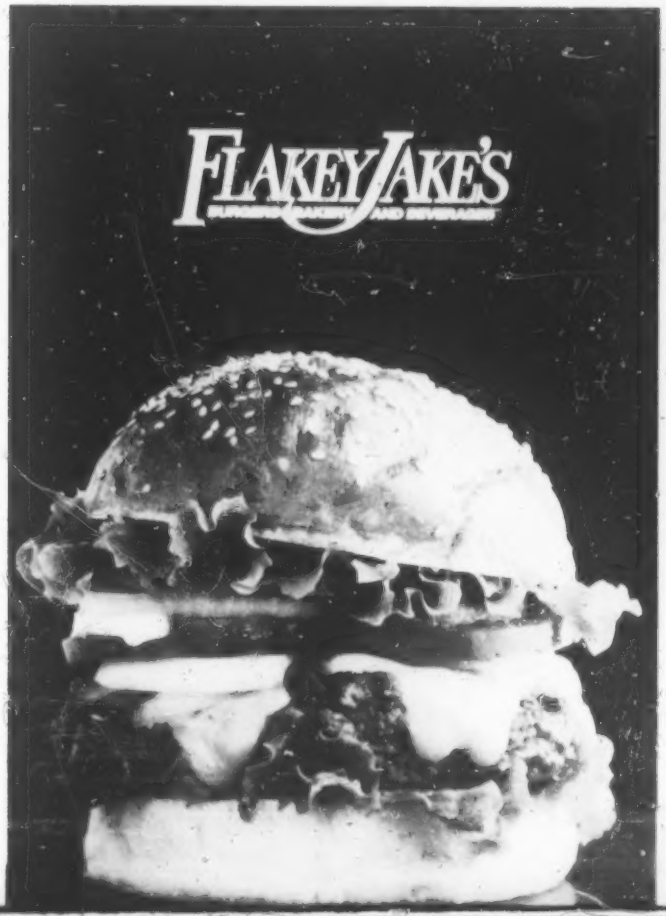
Lewis says that a Hamburger Hamlet differs from most gourmet hamburger operations because the atmosphere is much less casual. "We're a white tablecloth operation, but serving hamburgers," she says. "A Hamburger Hamlet kind of looks like New York's 21 Club."

Hamburger Hamlets is publicly owned, though the family owns 72 percent of stock. Total company sales are approaching $40 million, says Lewis, with unit volume averaging $2 million. She points out that several units gross as much as $3 million yearly.

Red Robin, based in Seattle, is also an old timer compared to most gourmet burger concepts. Though the first unit opened in 1969, real growth didn't take off until 1980, when the company began franchising and expanding company units. The company now boasts 22 units, with eight of those opened in the last year. Eighteen openings are projected in 1985, and a five-year forecast (which includes this year) calls for 185 units.

Thomas A. Sacco, senior vice president of operations, says the company is changing its expansion strategy. Previously, new units were opened at a ratio of three franchised restaurants for every one company restaurant. That ratio is shifting to 50/50 so that Red Robin can control its own development schedule instead of relying on the timetables and revenue streams of franchisees.

Sacco says that much of Red Robin's 1985 expansion will be in Florida and Chicago. A franchise for the state of Alaska recently was sold, and agreements are expected to be consummated in the near future for franchises in the Northeast and



**Above:** *On-premise butcher shop is visible behind Puddnicker's fresh produce display.*
**Left:** *Flakey Jake's condiment bar runs the gamut from guacamole to sauerkraut to pineapple.*

*The allure of entering a new niche with broad appeal and high profitability is attracting major industry players.*

Southeast.

Red Robin offers 30 different burgers, ranging in price from $3.50 to $5.75. Sacco says that Red Robin calls anything served on a hamburger bun a "burger," so some of the more unusual "burgers" include a Scoshi Teriyaki'd Boneless-Pork by Choppy Burger (a porkchop burger with teriyaki sauce, cheddar cheese, chutney, tomato, lettuce and mayonnaise) and a Poli-Opso Chicken Burger. A slightly more traditional offering is the Orbit burger—a hamburger patty with cheddar cheese, ham, salami, swiss cheese, guacamole, dijon mustard, tomatoes, onions, and lettuce.

Average check is $6.25 for lunch and $7.50 for dinner, with 67 percent food sales and 33 percent alcoholic beverage sales. Average unit volume is $1.9 million, with chain-wide sales of $39.3 million projected for 1984.

Like several other gourmet burger chains, Red Robin is diversifying its menu. "We've done an extremely good job with burgers, but we see the proliferation of other gourmet burger and casual dining concepts, so we are offering a few select items to get customers to come on a more frequent basis," says Sacco. New offerings are primarily low-calorie, low-sodium dinners, finger foods, salads, and sandwiches. The chain has also added breakfast or brunch, depending on the location, as well as a children's menu.

The restaurants themselves blend nostalgic, eclectic decor elements with neon and chrome. According to Sacco, waiters and waitresses are the girl- or boy-next-door type, dressed like cheerleaders.

Industry awareness of gourmet burger concepts shot skyward last summer when Norman Brinker, then president of Pillsbury Inc.'s multi-billion dollar restaurant group, left his favored position to take over the presidency of Chili's, a primarily regional chain based in Dallas. (See *Restaurant Business*, Oct. 1, 1983). Founded in 1975 by brothers Larry and Jack Lavine, the chain now operates 32 units and recently went public to finance expansion. Sales in 1983 reached $43 million, with annual unit volume averages approaching $2 million. McDougall says that a recent earnings report showed net earnings up 51 percent over a year ago, and total sales up 37 percent.

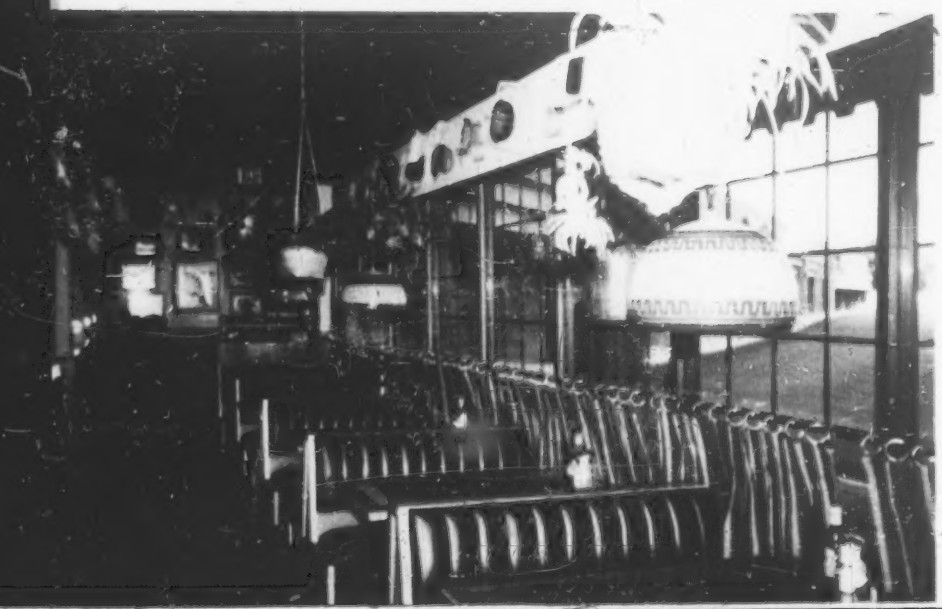
The Chili's concept is friendly and straightforward, with an average check of about $5. The menu features 13 varieties of ½ lb. hamburgers with toppings ranging from cheese to guacamole, chili, and jalapeno peppers, as well as Texas-style chili, icy cold beer served in mugs, and frosty margaritas. Prices range from $2.95 to $5.95 for the Grande, a hamburger and hot dog topped with hickory sauce, chili, cheese, tomato, lettuce, onion, and pickle. The food is tasty and trendy, quality is consistent, portions are generous, and prices are affordable. As noted, the menu recently was expanded, but management is reluctant to detail the changes because Chili's has so frequently been copied.

Chili's is now establishing a franchising program, and last December entered into a joint venture with an operator who will develop areas of North Florida and Georgia.

Though national attention didn't focus on Chili's until last year, savvy observers had been watching the success of the gourmet burger concept for some time. Last May, there were reports that Chili's had been sold to California-based Saga Corp., but the reports proved premature. Still shopping, Saga acquired Spoons, another Texas-based concept, later in the year.

Spoons also serves ½ lb. burgers as well as Mexican specialties such as nachos, tostados, and chili. An addition to the menu is barbecued baby back pork ribs for $5.95. Price range is from $1.25 for tostados and hot sauce to $5.95 for the ribs, with most burgers in the $3.50 range. Average check runs $5.

Founded in 1979, Spoons operates six restaurants, five in Houston and one in Campbell, California. Four of the restaurants opened last year and one this year; the one unit in operation for a full year posted an annual volume of $2 million, says Gene Els-



*Plants and woods highlight J.T. McCord's interior decor.*

bree, Saga's vice president of corporate relations.

Elsbree says that Saga plans to open 15 units in fiscal 1985 (which began July 1, 1984), mostly in northern and southern California and the Chicago area. At present, the company plans no franchising.

"I can't be more specific about long-term expansion, because Spoons is still very much in the development stage," says Elsbree. "We'll be looking carefully at the success of individual units and deciding what to do next."

Elsbree notes that Saga's acquisition of Spoons is consistent with the company's earlier acquisition of Grandy's, an upscale chicken concept.

Diversifoods, unlike Saga, chose to develop its own concept, known as Moxie's, as a conversion vehicle for its unprofitable Cork 'n Cleavers. In its present incarnation, Moxie's closely resembles Chili's and in fact the concept was originally to be called Pepper's before the company ran into copyright claims to the name.

Moxie's serves ⅓ lb. burgers in contrast to Chili's and Spoons' ½ lb. burgers, and company executives say they feel this variation gives Moxie's a competitive edge. They say that the ⅓ lb. burger at $2.75 instead of a ½ lb. burger at around $4 gives a higher perception of value and encourages the customer to purchase add-on menu items with higher profit margins, raising the average check and overall profit margins. Moxie's average check runs $7.

The first two Moxie's opened late in 1983 north of Chicago and in Florida, with 15 Moxie's openings expected this year. All of these openings will be converted Cork 'n Cleavers. Cork 'n Cleaver average unit volumes had dropped to $700,000 and below, and some 30 percent of the units were unprofitable. By contrast, Moxie's unit volumes will average $1.25 million if the present trend continues.

Initial results have encouraged management to focus more attention on Moxie's, and Shawn Holder has been transferred from the Chart House division to head Moxie's. A new format has been developed which incorporates on-premise baking of buns and apple pies in view of customers. A broader menu includes fish, chicken, pasta, and croissant sandwiches and is aimed more at women.

By the end of 1985, Diversifoods could have 50 company units operating. The company will consider franchising next year.

J.J. Muggs is being tested by S & A Restaurant Corp., parent company of Steak & Ale and Bennigan's. In addition to the ½ lb. burger with a variety of toppings, J.J. Muggs serves barbecued baby back pork ribs; a chicken sandwich made of boneless breast of chicken flame broiled with mushrooms, melted provolone cheese, and bacon strips; and a Philadelphia cheese steak sandwich with mushrooms, sauteed onions, and melted provolone cheese. Other menu offerings include a soft taco, soups and salads, and french fries and onion rings cut fresh daily. Average check is $5.50.

Six J.J. Muggs units are now open, and the concept has evolved through each. S & A purchased a Sambo's in West Palm Beach and a Sizzler in North Palm Beach late in 1982 and converted each to a slightly different version of a J.J. Muggs. The units were watched carefully, then the company designed its own building incorporating changes from the first two restaurants. A third unit opened in Sugarland, Texas, in March of 1984, and a fourth unit in Mesquite, Texas, in May. Now the company has yet another prototype that will be expanded. S & A will open 12 units by the end of fiscal 1985 (in June), and long range plans call for "a lot of units," according to Barbara Klima, manager of community affairs.

J.J. Muggs will expand first in Texas, Florida, and Oklahoma, then throughout the Southeast and Southwest—in areas where Steak & Ale is strong and management knows the market.

Projected annual unit volume is expected to meet or exceed $1.7 million, says Klima. She says that development of J.J. Muggs is a priority for S & A Restaurant Corp., because the company expects that growth of Bennigan's will level off, as has happened with Steak & Ale.

"We decided to enter the gourmet burger market because we wanted another concept," Klima says. "We looked at seafood, pasta, and pizza. We were looking for a concept with the highest volume for the least investment, that could be rolled out quickly and in a big way. We want to be the biggest in the industry."

Pizza Inn is also launching its own gourmet burger chain, called J.T. McCord's. The company now has five units open, all in Texas, with average unit volume running $1.8

*Southwestern decor and 13-burger menu distinguish Chili's.*

million. Plans call for opening 11 to 14 units by the end of the year, according to Owen. Those units will all be located in Texas as well. Next year, Owen says, J.T. McCord's will venture outside Texas with seven units. Long-range plans call for 10 company units per year in succeeding years, none of them conversions. For thriving Pizza Inns, J.T. McCord's is an attempt at diversification.

Pizza Inn began franchising the J.T. McCord's concept in July, and Owen says that the company hopes that franchise growth will parallel company growth.

Owen notes that J.T. McCord's falls between Chili's and Bennigan's with slightly higher prices than Chili's and a broader menu. In addition to seven ½ lb. burgers, J.T. McCord's offers a variety of sandwiches, salads, and several full dinners including chicken fried steak, chicken teriyaki, and an 8-oz. ribeye steak with potato skins. J.T. McCord's also utilizes seasonal menus, with chilies and soups in winter, seafood in the spring, and a variety of salads through the summer. Average check is $6.50, compared to Chili's $5.

W.R. Grace's T.J. Applebee's also claims a higher check average and a wider menu than Chili's, and differs from the other concepts because burgers are a far less important part of the mix, accounting for only 15 percent of sales. Only five burgers compete with nine hefty appetizers, several soups and salads, eight sandwiches, and such entrees as shrimp, oysters on the half shell, charbroiled chicken, and an 8-oz. sirloin. Average check runs $6.50 per person, according to Grace's Eadon, and projected annual unit volume is in excess of $1.3 million.

Besides its downplayed emphasis on the burger, T.J. Applebee's differs from most of the other gourmet burger concepts because of a higher liquor/food ratio. Most of the concepts derive only 20 to 30 percent of sales from liquor, while T.J. Applebee's derives at least 40 percent, says Eadon. This is in keeping with the concept's conscious resemblance to neighborhood taverns. Also keeping with that resemblance is the fact that most of Applebee's customers come from a three-mile radius; Applebee's is not a destination point like Grace's Houlihan's.

Applebee's, however, shares the gourmet burger concepts' emphasis on fast service. Drinks are served within three minutes, appetizers within six minutes, and entrees within 10 minutes, says Eadon.

At present, there are five company-owned Applebee's (four in Georgia and one in Houston), and one franchise in Ft. Lauderdale. Long-range forecasts project 210 units in five years.

Greyhound Management Corp. is experimenting with a gourmet burger concept called T. Twiggs. Located in Evansville, Indiana, the unit is a converted steakhouse owned by Greyhound. According to Joseph Fassler, Greyhound Food Management president, it is still too early to say how quickly the T. Twiggs concept will be expanded.

Mainstays of the menu are hamburgers, steaks, chicken, and four fresh catches of the day. Emphasis is on freshness. Meat for hamburgers is ground fresh *after* an order is placed, and rolls are baked on the premises and displayed in a proof box. A fixings bar complements burgers, as well as a salad and soup bar. The whole restaurant is built around the salad bar and serving area, where fresh fruit and vegetables are displayed. "If somebody wants an onion, we pull it from there," says Fassler.

Full meals include ribs, a strip steak, a round beef steak smothered with onions, and barbecued chicken, all served with potatoes, baked beans, and a vegetable of the day. Highest-priced dinner is $11.75 for the whole barbecued dinner, and no steak is higher than $10. The most expensive burger, a half-pounder, is $3.95. Check average at lunch runs around $4 and at dinner between $6 and $7.

Decor is upscale, with lots of oak, brass, and turn-of-the-century furniture, but food is served in disposables and twig baskets.

Fassler says that Greyhound expects T. Twiggs to gross $1.2 million the first year (the unit opened this July). He points out that Evansville is a town of only 80,000, and that a similar restaurant in a larger metropolitan area could reasonably be expected to post even higher sales.

Laredo's, one of several concepts that Magic Pan had been testing as one part of its turnaround effort, is that company's entry into the gourmet burger market. The first unit, in La Brea, California, is a converted Magic Pan, and spokesman Leslie Crall reports that customer counts are up 40 percent in the 120-seat unit. She adds that annual unit volume of $700,000 is comparable to a Magic Pan, but generated by fewer seats. A second unit (not a conversion) opened recently in W. Edmonton, California, and a total of nine units are planned by July 1, 1985.

*Freshness is the key at T. Twiggs, reflected in both the beef and the atmosphere.*

*More quality, more sophistication, and more atmosphere than fast food outlets attract the growing 21–49-year-old group.*

Again, the menu features 13 different burgers, ranging from the Azteca with guacamole and jack cheese to the taco burger with cheese, jalapeno, and salsa. The menu also offers a number of salads and Mexican entrees, as well as a full complement of appetizers.

Daly's Dandelion is New York City-based Beefsteak Charlie's entry in the gourmet burgers competition. For many years Beefsteak Charlie's has been positioned as a family-style steakhouse offering a complete dinner, including a salad bar with unlimited shrimp and beer, wine, or sangria, for a fixed price.

The company's research indicates that the steakhouse format offers limited growth opportunity in the future, and indeed the company reported a five percent decrease in customers in 1983 as compared to 1982.

As a result Beefsteak Charlie's is revamping its steakhouses and converting those that appear to have the most potential to Daly's Dandelions and two other test concepts. The first opened this spring in Nanuet, New York, serving burgers, fresh pasta, entree-sized salads, etc. Meat is ground in a display butcher shop at the entrance, and buns are baked in a display bakery. Customers can build their own sundaes by selecting toppings from a rolling cart that offers whipped cream, chocolate sauce, fresh fruits, nuts, etc.

Beefsteak Charlie's units in King of Prussia, Pennsylvania, and Green Acres, Long Island, are the next conversions scheduled, with three more units possible, according to Ron Colello, vice president of operations for Daly's Dandelion.

Initial results are promising, Colello says. Projected annual volume for the Nanuet Daly's Dandelion is $3.2 million, he says.

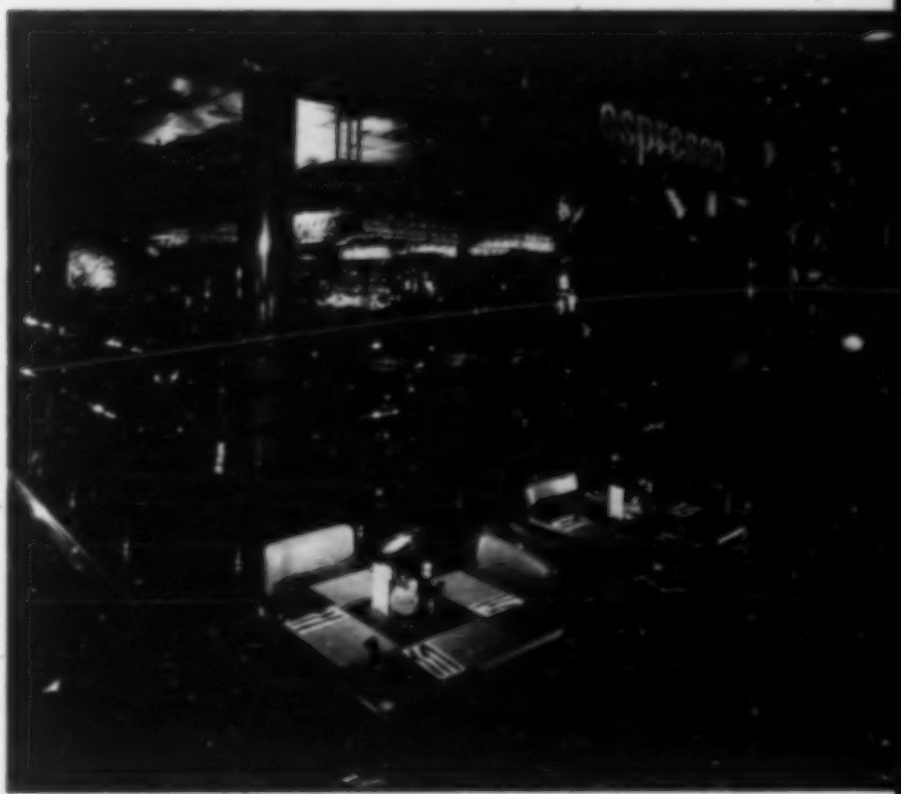
One of the newest gourmet hamburger operations to be introduced is also one of the more original. R. Thomas' Hamburger Cafe in Greenville, South Carolina, is the effort of Richard Thomas, founder of the upscale chicken chain Bojangles.

Thomas eschews the popular gourmet burger/Tex-Mex format with Southwestern decor for a look that he calls "San Francisco." That includes hardwood floors, black and white tiles, plants, mirrors, neon, and antiques functioning as back bars and wait stations. The original Hamburger Cafe is located in an older, refurbished building, a plan that Thomas intends to continue over the next 18 months as he opens units in Charlotte, Memphis, Key West, Boston, and Ft. Lauderdale.

Hamburger Cafe's ⅓ lb. burger, served in six incarnations, is thinner than the hefty ½ lb. burger at most other concepts, which Thomas considers a plus. "I want this to be a lighter meal," he says. "I want customers to be pleasantly full."

The burger is served on grilled nine-grain bread, rather than on a bun, with lettuce, tomatoes, and sauce. Burger prices range from $3.25 for the basic burger to $5.75 for a "Chili Pepper" burger served open-faced and covered with chili and cheese. The menu also includes six meatless sandwiches and a variety of salads, breakfast selections, omelets, and side orders.

Omelets can be made with more than 20 different ingredients, and customers can add the same ingredients to their basic burger as well, Thomas notes. He adds that breakfast items are oriented more toward weekend brunch, but the restaurant



*A larger bar and lower check distinguish Daly's Dandelion from Beefsteak Charlie's.*

is open for breakfasts during the week because employees are already on premises doing prep work. Breakfast accounts for only 10 percent of sales; lunch accounts for 40 percent; dinner for 50 percent.

One big difference between R. Thomas' Hamburger Cafe and the other gourmet burger concepts is that Thomas makes no claims to speedy service. He offers a more leisurely experience, but his target market is still the baby boomers who have grown up on hamburgers and fries, he says.

The first Hamburger Cafe opened in June, so it is risky to project annual volume. Thomas, however, expects the first unit to gross $1.6 million the first year, with 170 seats.

## Self service concepts

Boulder-based Round the Corner Restaurants operates 30 units in eight metro areas in six states, and by number of units is one of the largest gourmet burger concepts in operation. The company is also one of the oldest, founded in 1968. Sales in 1983 reached $20 million, with average per-unit volume of $800,000.

Because Round the Corner predated both Chili's and Fuddruckers, upon which a great many of the gourmet burger concepts are patterned, this concept is more original than many. Besides the unique ordering system (via telephones from the table), the menu is more similar in its broadness to the other self-service concepts.

Round the Corner's burger is charbroiled and served with 20 different combinations of proprietary sauces and other toppings. An example is the Burger Stroganoff, with melted Swiss cheese, mushrooms in sauce, and sour cream. All the ¼ lb. burgers are priced under $3. The menu also includes soup du jour; 11 specialty sandwiches ranging from "chicken cheesiano" to a B.L.T.; hot dogs; baked beans; chili; etc. The menu also includes wine and beer but no mixed drinks.

In an effort to boost evening business, the company is testing a new dinner menu in four locations. The menu features larger ½ lb. burgers as well as a chopped steak entree for $4.75; several barbecue platters ranging in price from $6.50 to $9.95; two new sandwiches; and five stuffed potatoes, all $1.95 except for a taco potato with sour cream, guacamole, picante sauce, and bacon.

Round the Corner Restaurants feature open, contemporary dining rooms with warm, natural woods, brass railings, plants and dry flower arrangements in copper pots and baskets, and bright, interesting wall hangings.

According to chairman of the board Ed Massey, Round the Corner will concentrate expansion in six of the metro areas where it currently operates: Denver, Atlanta, Phoenix, San Diego, Seattle, and Los Angeles. The company uses a sophisticated site selection model, and Massey says that the number of units in each market depends on the number of suitable locations. "I don't think Atlanta or Phoenix could handle more than six units, but San Diego could handle 10," says Massey. "We'll develop each city as thoroughly as we can before we go into other markets. We would never go into a market with just one unit."

The model for most of the service gourmet burger concepts is five-year-old San Antonio-based Fuddrucker's, with 17 units in Texas, one in Colorado, one each in Georgia, Arizona, Washington, and Ontario, three in Florida, two in Louisiana, two in Indiana, and six in Los Angeles (some are franchised). The company will have 65 to 75 units open by the end of 1984, according to Clark Crowdus, director of marketing.

*Upscale Hamburger Hamlet caters to the grown up fast food generation.*

The company is publicly owned.

The reasons the Fuddrucker's concept has been much-copied are obvious: the format is so popular that unit sales average $2 million a year, says Crowdus. Units seat between 200 and 300 people, and the average check runs $5.52.

As customers walk into a Fuddrucker's, they see meat being ground fresh in the butcher shop, rolls, cookies, and brownies being baked in the bakery, and crates of fresh vegetables stacked in the produce area. They order a plain burger (for about $3.85, depending on the unit) at the counter, then go to a condiment bar to choose from crocks of melted cheese and every possible variety of accompaniment.

Sea Galley Store's Flakey Jake's essentially follows the same format, but offers a broader menu with soft tacos, chicken salad, fish sandwiches, and an even larger condiment bar, offering everything from guacamole to sauerkraut and pineapple. Average check runs $5, according to senior vice president John Zechman. Annual unit volumes reach $2 million. There are currently 10 units, with plans for 19 more company stores and eight franchised

**FULL SERVICE GOURMET BURGER CONCEPTS**

| Concept | Number of Units (Mid-Summer 1984) | Average Unit Volume | Growth Outlook |
|---|---|---|---|
| **Chili's**—Much-copied public company headed by former Pillsbury Foodservice chief Norm Brinker. Recently broadened Mexican-influenced menu well beyond burgers. | 32 | $2 million | Expansion at 50 percent rate per year. |
| **Daly's Dandelion**—Lower-check-average conversion vehicle for NY-based Beefsteak Charlie's serving burgers, pasta, salad, and sundaes. | 1 | $3.2 million | Two more conversions scheduled and three more possible. |
| **Hamburger Hamlet**—Thirty-year-old white tablecloth concept featuring burgers, chili, and fresh desserts. | 22 | $2 million | 5 units in the next 12 months. |
| **J.J. Muggs**—Developed by S&A Restaurant Corp., owner of Bennigan's and Steak & Ale, as a low-investment diversification vehicle. | 6 | $1.7 million | 12 units by June, 1985, then watch for rapid expansion. |
| **J.T. McCord's**—Half-pound burgers, sandwiches, salads, and full dinners distinguish Pizza Inn's diversification concept. | 5 | $1.8 million | 7 new units next year, then 10 a year in succeeding years. |
| **Laredo's**—A conversion and diversification vehicle for Magic Pan, with Mexican emphasis. | 2 | $700,000 | 9 units by July, 1985. |
| **Moxie's**—Diversifood's concept sells smaller burgers for lower prices in converted Cork'n Cleavers. | 2 | $1.25 million | Possibly 50 units by end of 1985. |
| **Red Robin**—This 15-year-old concept is diversifying its menu to attract a broader range of customers. | 22 | $1.9 million | 18 openings in 1985, 185 units by 1989. |
| **R. Thomas Hamburger Cafe**—Developed by founder of upscale chicken concept Bojangles. Omelets and leisurely service distinguish this concept. | 1 | $1.8 million | 5 units in next 18 months. |
| **Spoons**—Continuing to diversify, Saga Corp. acquired this Mexican-flavored concept which is still in the development stage. | 6 | $2 million | 15 units in fiscal '85. |
| **T.J. Applebee's**—Acquired by W.R. Grace fast food division, Creative Food 'N Fun. A broader menu than typical gourmet burger operation. Patterned after a neighborhood pub. | 5 | $1.3 million | 210 units in five years. |
| **T. Twiggs**—Developed by diversifying Greyhound Food Management, this concept emphasizes burgers, steaks, chicken, and fish. | 1 | $1.2 million | This is pilot unit; growth dependent upon success of test concept. |

units by the end of the year. Expansion is being financed by two public offerings made this year.

Company stores are grouped in Los Angeles and Seattle, with San Diego pinpointed as the next market for penetration. Zechman adds that rights have been sold and commitments have been made for over 200 franchised stores over the next four years, with about 75 company stores to be opened in the same period. Although Sea Galley Stores has encountered some financial difficulties the openings will not be conversions, says Zechman.

Victoria Station's Bonkers Burger Grill & Bar is also self-service with a similar format of a display butcher shop and bakery, but decor is more 50s style and less turn-of-the-century than either Fuddrucker's or Flakey Jake's. The first unit, a conversion, opened this summer in Woodland Hills, California.

The company recently signed an agreement in principle to receive $5 million in equity financing from Golder, Thons & Cressey, a private investment group in Chicago, to expand the concept. A second unit is now under construction in the Chicago area. Sales of the first Bonkers units are reportedly expected to reach $2.6 million for the year, enough reason for the troubled 100-unit chain to consider expanding Bonkers. The company has lost $16 million over the past four years.

At the first Bonkers, a new skin covers the existing building so the trademark train cars now resemble pink and stainless steel 50s diner cars. Inside, a black and white tile floor, 50s music on the jukebox, and neon signage continue the 50s theme. Like Fuddrucker's, Bonkers features a display bakery at the entrance, as well as a display butcher shop and a big condiment bar. The menu also features barbecued ribs.

Purdy's, the subject of one of Fuddrucker's more recent lawsuits, currently consists of two units in Dallas and Austin. Owner Ralph McElroy opened the first unit (in Dallas) in June of 1983, and as many as three more units (one in Houston; two in Dallas) will open this year.

Donny Marzluff, Purdy's director of operations, notes that because of an injunction issued as a result of Fuddrucker's suit Purdy's has eliminated its black and white tile floor and has temporarily closed the display bakery and butcher shop. Sales have not been affected, however, he says.

Purdy's menu is wider than some of the self-service concepts. In addi-

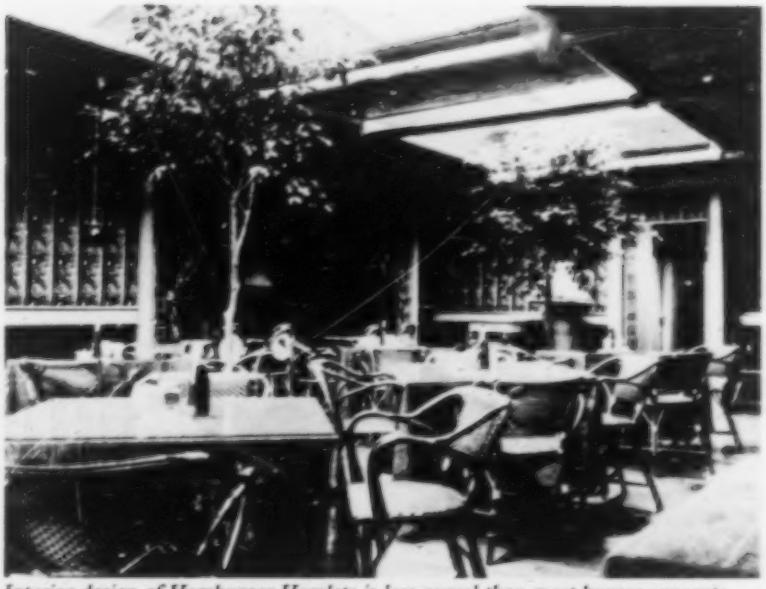
**SELF-SERVICE GOURMET BURGER CONCEPTS**

| Concept | Number of Units | Average Unit Volume | Growth Outlook |
|---|---|---|---|
| **Bonkers Grill & Bar**—Fifties decor and display areas highlight Victoria Station's conversion vehicle. | 1 | $2.6 million | Company plans to convert underperforming Victoria Stations—up to 15 units possibly within next year. |
| **Ed Debevik's**—Patterned after a 50s diner. Joint venture between Phoenix-based Big Four Restaurants, Chicago-based Lettuce Entertain You Enterprises, and Collins Foods. | N/A | N/A | First unit opened late August. Units opening in Chicago, Phoenix, and California. After that, expect rapid expansion. |
| **Flakey Jake's**—Broad menu and turn-of-the-century decor highlight this make-your-own concept owned by Seattle-based Sea Galley. | 10 | $2 million | Over 200 franchised units and 75 company units in next four years. |
| **Fuddrucker's**—Much-copied concept featuring open butcher shop and bakery plus fresh product display. Limited menu emphasizes varietal condiment bar. | 22 | $2 million | 65 to 75 units by end of 1984 |
| **Purdy's**—Fifties theme and diversified menu distinguish this concept owned by Austin, Texas restaurateur Ralph McElroy. | 2 | N/A | 3 more units to open this year. |
| **Round the Corner**—Boulder-based company has a broader menu than typical self-service concept. Customer orders by phone and picks up own order when phone buzzes. | 30 | $800,000 | Number of units depends on number of good locations. Concentrating on markets where there is already a presence. |

tion to hamburgers, the restaurants serve sandwiches such as breast of chicken, a quarter-pound hand-breaded cod sandwich, and a fried oyster poorboy. The bakery turns out cookies, cakes, and pies in addition to buns and the typical brownies. In keeping with the 50s theme, Purdy's is one place the customer can still get a cherry or vanilla coke.

Ed Debevic's, the joint venture between Collins Foods, Chicago-based Lettuce Entertain You Enterprises, and Phoenix-based Big Four Restaurants, also offers a broader, varied menu that includes hamburgers and hot dogs. Check average is expected to be around $5.50. The first unit was to open at the end of August or beginning of September in Phoenix, with a second unit in October in Chicago. Units will follow in Phoenix and California. After this test phase is completed expansion will be rapid, says Big Four's director of public relations Terry Cera.

The "diner" is open for breakfast and serves salads, chicken, tuna sandwiches, chili, etc., in addition to hamburgers and cheeseburgers. Price range is from $3 to $5.



*Interior design of Hamburger Hamlets is less casual than most burger concepts.*

It's impossible to say at this point whether "gourmet burgers" are a fad or the foodservice of the future. One thing is for sure: Competition is heating up. □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Market Segment Report

# C-stores vie for fast food market

by Cynthia Amorese

Since the mid-1970s, convenience stores have been actively seeking to take advantage of a growing demand for quality foods served quickly and inexpensively.

Propelled by strong demographic factors (women entering the work force in record numbers, baby boomers reaching maturity, older people remaining mobile and active later into life), this demand has created a lucrative new market for establishments catering to on-the-go customers with restricted budgets and tight schedules.

By virtue of prime location and established clientele, convenience stores were ideally positioned for a thrust into the fast food market. Low investment costs and high profit margins clinched the decision to pursue this advantage. In the past four years, tentative courtship of the market has grown into ardent romancing.

Fast food chains continue to grow and prosper, but so do the food operations of the country's top 10 convenience store chains, where fast foods currently contribute up to 15 percent of total merchandise sales.

According to recent data published by *Restaurant Business* magazine in its Restaurant Growth Index (RGI), the fast food segment of the foodservice industry grew by 10.5 percent to $38.8 billion in 1983.

By comparison, fast food sales in convenience stores grew by 13.9 percent to $739 million during the same period.

Between 1983 and 1988, *Restaurant Business* expects fast food sales in C-stores to grow at a compound annual rate of 14.6 percent versus a projected 9.5 percent rate for fast food chains. That translates into an increasingly handsome market share for an industry many believed could never be competitive in foodservice.

The advantages of buying lunch at a convenience store instead of a fast food restaurant come down to the operative word of the industry—convenience.

The president of one C-store chain points out that in addition to quality, broad menu, competitive pricing, and the opportunity to combine food purchases with other shopping, his company's stores enable customers to "get in, make a fast food transaction, and get out quickly."

The country's top 10 convenience store chains (ranked by number of units in the accompanying chart) all offer what could be labeled a "standard" C-store menu: sandwiches, burritos, nachos, hot dogs, pastries, and beverages. Emphasis is on self-service, preparation is by microwave, and prices rarely exceed $3.

The differences among the chains lie in quality of product and willingness to pursue new market segments. Ultimately, these differences reveal the degree of commitment each chain has made to its food program.

One of the chains most vigorously pursuing the fast food market is Na-

*At 7-Eleven, the largest C-store chain with close to 7,000 units, fast food accounts for about 15 percent of total sales.*

*National Convenience Stores has extensively developed a full range of fast food items for its Stop N Go units.*

tional Convenience Stores Inc., a Houston-based company that operates 1,082 units (mostly under the name Stop N Go) in 11 Sunbelt states. For fiscal 1984, fast foods accounted for 11.5 percent of total merchandise sales, or roughly $59 million.

NCS has helped set every major trend in C-store fast food growth—company-owned commissaries that prepare and distribute quality products; deli counters that offer fresh-made sandwiches and hot entrees; a fried chicken program that uses fresh poultry; and seating that provides an alternative to take-out.

When NCS started building its fast food program a decade ago, president and CEO Pete Van Horn perceived that quality would determine its success or failure.

"I wanted a better-quality product," he says. "What we'd had were poor-quality sandwiches merchandised in a glass case. The suppliers wouldn't improve *their* quality, so we started producing our own fresh product."

From two distribution centers in Texas and California, NCS provides most of its stores with 25 sandwich varieties plus the fixings for hot dogs, burritos, nachos, and other popular finger foods.

In areas not served by the commissaries, in-store delis make sandwiches to order. Several Stop N Gos have hot delis that offer such fare as barbecued ribs, corn on the cob, and made-from-scratch fried chicken.

Seating is provided in more than 100 NCS stores; by next year the figure should be 300.

To achieve a better space-to-sales allocation, NCS is moving dry groceries, which account for five percent of sales but have gotten up to 50 percent of prime floor space, to rear wall areas. Much of the cleared space—an average of 500 square feet per total 2,400—is being devoted to fast foods.

An even greater amount of floorspace is given to prepared foods in the company's Superstores, which range in size from 3,000 to 4,800 square feet. For double the total investment (it costs roughly $25,000 to equip a standard Stop N Go for foodservice), Superstores use the high profit margins of fast foods and nonfoods to generate three to four times more sales.

From a base of 16 Superstores in operation at the end of 1983, NCS plans to open eight to 10 more yearly.

The Dallas-based Southland Corporation, undisputed king of the C-store industry, has made fast foods a significant part of its giant 7-Eleven operation.

With close to 7,000 U.S. stores, the chain leads the nation in sales of brewed coffee and holds third place in fountain soft drink sales. President Jere Thompson estimates that fast foods may account for as much as 15 percent of current store sales.

The basic 7-Eleven menu includes hot dogs, nachos and burritos, 15 sandwich varieties, breakfast pastries, sausage biscuits, corn dogs, and French bread pizza.

Most of these items are prepared, wrapped, frozen and sent microwave-ready from six strategically located food commisaries owned by the company. A dairy division supplies the stores with milk, juices, and frozen novelties. Because Southland serves outside customers as well as its 7-Eleven stores, the food and dairy centers are profitable operations in their own right.

For the past year, Southland has been test marketing a new fast food concept in Virginia and Texas. Approximately 40 7-Eleven units have been extensively remodeled to ac-

*continued on page 144*

commodate both a convenience store and a foodservice section called J.T.'s Sandwich Shoppe (Southland's chairman of the board, John Thompson, shares initials with his brother Jere, company president).

An on-site bakery highlights each J.T.'s, producing breads, croissants and sweet rolls throughout the day. A deli lets customers choose their favorite sandwich makings or opt for meal-in-a-bowl foods like beef stew and chili. Cole slaw, potato salad, and other popular side dishes round out the menu.

Southland officials decline to talk about the sandwich shops, saying they're still an "experimental operation." The opening of new J.T.'s in Austin, however, might signal the success of the experiment.

The Circle K Corporation, which operates 2,185 convenience stores and C-store/truckstop combinations in 18 western and Sunbelt states, has, according to president Bob Hutchinson, "proved that a convenience store can produce, distribute and sell a quality sandwich."

The Phoenix-based company maintains an 18,500 square foot commissary that produces more than 300,000 private brand sandwiches (16 varieties) weekly. The commissary also supplies sandwiches and Mexican foods to more than 1,100 outside accounts, mainly other convenience stores.

The food operation contributed enough to last year's revenues (eight percent for store sales of fast foods) to be cited by chairman of the board Karl Eller in his May announcement that Circle K had surpassed the billion-dollar mark for annual sales.

"The rapid expansion of our fast food business and the resulting increased profitability of our commissary operation made significant bottom line contributions," he says.

Cumberland Farms, the country's third-largest convenience store chain, has been actively pursuing the fast food market for only a year. Based in Canton, Mass., the privately held company operates 1,200 units in 10 northeastern states and Florida.

Offering a fairly standard menu (15 sandwich varieties, donuts, pizza, Mexican foods), the company is rapidly exploring ways of mining the gold it sees in fast food.

"Fast foods provide a new source of revenue at high profits," says John Tambakis, director of special projects. "Quality is the edge on which you compete, so you're going to find everybody doing the best they can."

To regulate its own product quality, Cumberland Farms established a commissary in late 1983 which is geared to service outside customers as well. The company is expanding the amount of store space it devotes to fast foods and considering the possibility of adding seating to certain units.

For the Lawson Co., an Ohio-based subsidiary of Consolidated Foods Corp., Chicago, delis are big business.

Each of the chain's 680 stores has a full-service deli featuring a large selection of cold cuts, cheeses and side dishes. Fried chicken, cooked from scratch, is offered in 15 stores. To ensure good service and compli-

*continued on page 146*

**TOP 10 CONVENIENCE STORES***

| Company/Headquarters (dba) | U.S. Units | Geographic Concentrations |
|---|---|---|
| The Southland Corp.<br>Dallas, TX<br>(7-Eleven) | 6,962 | 41 states and District of Columbia |
| The Circle K Corp.<br>Phoenix, AZ<br>(Circle K and UtoteM) | 2,185** | 18 states, West and Sunbelt |
| Cumberland Farms<br>Canton, MA<br>(Cumberland Farms) | 1,200 | 11 states, New England, Pennsylvania, Texas |
| Convenient Food Mart<br>Rosemont, IL<br>(Convenient Food Mart) | 1,096 | 39 states, Midwest |
| National Convenience Stores, Inc.<br>(Stop 'N Go, Shop 'N Go, Hot Stop, Colonial, Stop 'N Serve, Super Stop, Schepp's Food Stores, Rebel, Rebel Plus) | 1,082 | 11 states, Sunbelt (mainly Texas) |
| Munford, Inc.<br>Atlanta, GA<br>(Majik Market) | 863*** | 14 states, South |
| ARCO Petroleum<br>Atlantic Richfield<br>Los Angeles, CA<br>(am/pm Mini Market) | 770 | 13 states and District of Columbia, West and Northeast |
| The Lawson Co.,<br>Consolidated Foods Corp.<br>Cuyahoga Falls, OH<br>(Lawsons) | 680 | 4 states, Midwest |
| The Convenience Store Group,<br>Petroleum Products Division,<br>Crown Central Petroleum Corp.<br>Raleigh, NC<br>(Fast Fare, Zippy Mart) | 573 | 5 states, South |
| The Pantry, Inc.<br>Sanford, NC<br>(The Pantry) | 470 | 5 states, South |

*Ranked according to number of units. **January '84 ***July '84

ance with health regulations, all deli workers are trained in proper techniques of food handling (this holds true for other convenience stores too). Expansion into fast food seemed a logical move to Frank Alger, president and CEO of Lawson Co.

"Statistics are that about 80 percent of all products bought in a convenience store are consumed within 24 hours," he points out. "That means we're already selling 'fast foods' compared to grocery stores. We're successful because we have a tremendously large customer base going into our stores each day, and we offer convenience, quality, and, in many cases, lower prices than the fast food franchises."

To get the most from its fast food program, Lawsons has renovated 60 stores to make room for prominently placed foodservice and seating areas.

With several more stores slated for similar remodeling, Alger anticipates a handsome return on the investment. "I expect our fast food sales to more than double in the next three years," he says. Fast foods currently account for five percent of total merchandise sales.

Another convenience store chain with a prosperous deli program is Convenient Food Mart of Rosemont, Ill. Almost half the company's 1,096 franchised units have full-fledged delis offering made-to-order sandwiches as well as cheeses and luncheon meats by the pound.

*Dining facilities are featured in more than 100 Stop N Go stores.*

"The future is in perishables—deli, produce and bakery," says Marty Venturini, Convenient Food Mart's national marketing director. "And a good thing about fast foods," he adds, "is that they generate a lot of plus-sales. It's very easy to sell someone an apple to go along with a sandwich."

To make sure it's easy, produce cases stocked with fresh fruits and vegetables are a regular feature of Convenient Food Marts.

Besides fresh-made sandwiches, the fast food category showing strongest growth in convenience stores is chicken.

The biggest chains—Southland, Circle K, and Cumberland Farms—are eyeing this labor- and equipment-intensive business with caution. But other major chains are going after the chicken market with a vengeance, determined to "do it right" by anybody's standards.

*continued on page 148*

*Stop N Go 'superstores' are 50 percent larger than the standard unit with most space used for fast food service.*

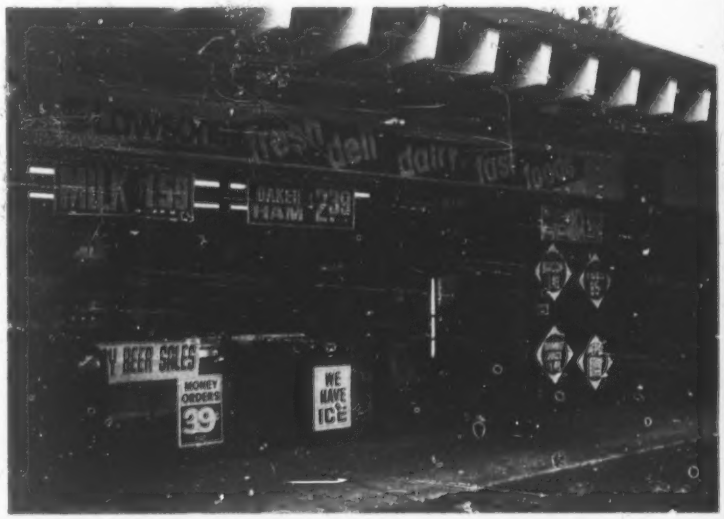
The North Carolina-based Pantry chain uses fresh chickens and pressure-frying systems to produce a moist, quality product.

Location is key to the Pantry's success. Though limited to 57 stores of a total 470, the chicken program is targeted to a particular market.

"We put our chicken operation in smaller communities where there aren't too many fast food chains," explains Roger Cox, director of marketing. "We offer a fast food product not normally available to these communities, and we're successful at it because of quality and price."

Chicken isn't the only fast food available at Pantry stores. All offer sandwiches and beverages, 57 have delis, 25 feature fresh donuts, and several make biscuits from scratch to successfully compete for breakfast trade against neighboring Hardees operations.

Convenience stores have stepped up the promotion of their fast foods, pushing new menu items and specials with everything from print, radio and TV advertising to billboards, merchandise giveaways, and elaborate POP displays.




*Storefront banners promote deli and fast foods at Lawsons.*

Fliers and radio commercials are the most commonly used means of getting out the message, but Circle K has borrowed some tricks from the fast food pros.

This past spring, all Circle K stores carrying the company's Deli-Fresh line of sandwiches participated in a sales incentive contest pitting each store's sandwich sales for April against the combined average of its February and March sales.

Power of suggestion proved an effective tool. Merely by encouraging customers to try a Deli-Fresh sandwich (anything from tuna salad to a 14 oz. "Texan" suffed with four meats and two cheses), Circle K employees boosted impulse sales by as much as 150 percent.

Managers of the 30 stores showing the greatest increase in Deli-Fresh sales received prizes ranging from expense-paid vacations and cash gifts to color TVs, 35mm cameras, and his/her watch sets. All employees of winning stores were awarded two shares of Circle K stock and an eight-pound cured ham.

"We're very pleased with the results," Stephen Schwitalla, vice president of foodservice, announced at the conclusion of the contest. "Suggestive selling is the greatest single contributor to incremental sales gains in conventional fast food establishments. For this reason, future contests are planned to further stimulate this important aspect of our program."

Of all the convenience store chains in the country, only the Southland Corporation is large enough and geographically dispersed enough to reap the benefits of national advertising and promotions.

The connection between Summer

*continued on page 150*

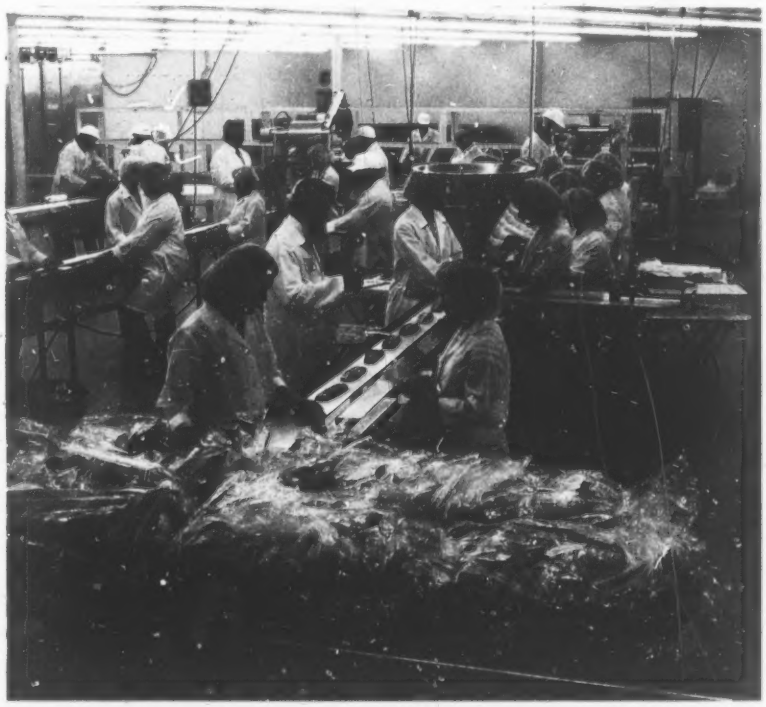
*Lawsons promotes its freshly prepared fried chicken.*

Olympics support and increased fast food sales may seem obscure, but the fact that 7-Eleven is favorably known throughout the country ultimately translates into dollars.

Last fall, to provide "a little taste of home," the Navy asked Southland to convert a canteen aboard the U.S.S. Guam into a mock 7-Eleven.

Mike Frost, a 7-Eleven division manager for southern Virginia, jumped at the chance to get his company's name in front of the 2,000 sailors and marines aboard the Norfolk-based helicopter carrier, and completed the transformation within six days.

"We gave them a Slurpee machine, various 7-Eleven products, and even offered shelving and in-



*The Circle K commissary produces more than 300,000 sandwiches weekly.*

store fixtures to make the store look authentic," he says.

Any discussion of convenience stores must include mention of gasoline.

All 770 of ARCO's am/pm Mini Markets have gas pumps out front. The Convenience Store Group, a wholly owned subsidiary of Crown Central Petroleum and before that a part of Sun Oil, sells gas at 70 percent of its 573 Fast Fare and Zippy Mart stores. With the exception of two midwestern chains—Convenient Food Mart and Lawsons—the country's top convenience stores all sell gas at a majority of locations.

The tie-in between gasoline and fast food becomes apparent in the annual report of the Southland Corporation, which last year acquired Citgo Petroleum: "Self-serve gasoline accounted for over one-fourth of 7-Eleven sales and contributed significantly to merchandise sales, with 34 percent of gasoline customers purchasing other items."

Those "other items" were often fast foods, and at National Convenience Stores, which has pumps at 85 percent of its locations, the percentage of gas customers making in-store purchases is edging up to the halfway mark.

The relationship is symbiotic in that the high profit margins and stable draw of fast food help offset fluctuations in the retail gasoline market.

Where gas stations are the principal business and convenience stores are ancillary (as with the ARCO and Crown operations), fast food programs have developed more slowly. Where convenience stores are *the* business, however, fast food programs have grown rapidly.

Atlanta-based Munford Inc. falls somewhere in between the two types of operations. In a program the company claims to have pioneered more than a decade ago, Munford runs 469 of 863 Majik Markets in conjunction with major oil companies.

In addition to the standard fare, Majik Market offers french fries, chicken nuggets, and soft-serve ice cream—items which have been added within the last two years.

Munford's 1983 annual report notes that "fast foods and snacks (are) becoming increasingly more important to profit margins." But marketing director Ed Taylor says, "As yet, there has been no conscious decision made to settle on a path of action to enhance that operation."

So what are fast food chains saying today about C-store food programs? Arlene Gulas, public relations director for Subway, the country's largest sandwich shop chain, says product quality and personalized customer service will maintain the company's edge.

Larry Higby, senior vice president of marketing for Taco Bell, says, "We're in the restaurant business instead of the food business. The method of food preparation in most convenience stores precludes them from real competition with us—our food is always fresh and prepared when you order it."

And Nancy Bishop, press relations manager for Kentucky Fried Chicken, answers the question of C-store competition with, "We don't view competition as a threat, because it increases interest in the whole market segment."

That's fine with Pete Van Horn, president of National Convenience Stores. He likes not being perceived as a threat. "As long as the fast food chains believe we can't compete in quality," he says, "they'll ignore us, and that'll be a very healthy thing for us." □

# Expanding European markets

by Priscilla Andreiev

**This year more companies are exporting more American concepts than ever before.**

McDonald's growth rate abroad is up to 20 percent per year. Kentucky Fried Chicken (KFC) targets 900 new units overseas within the next five years. Mr. Donut has staked out new territories and Denny's wants to dominate the coffee shop segment in Japan. Pizza Hut's international division has nearly doubled in the last three years. This year more companies are exporting more American concepts to more foreign markets than ever before.

New concepts to go abroad include gourmet burgers, submarine sandwiches and Tex-Mex food. Premium ice cream, deep dish/pan pizza, chicken nuggets and Maine lobster are among the products that are making waves. Markets opening up to American fast food concepts include South Korea, Indonesia, Italy, Oman, Andora, Argentina and possibly even mainland China. Local chains in France, Japan, Spain and Australia are positioned for growth.

Overall U.S. foodservice industry executives now see a sunnier future worldwide than in the past several years. In general, recovery of the domestic fast food industry and stabilizing of world economies are behind the change in climate. The forces behind optimism for specific markets, however, are as varied as the cultures and peoples of the world—with everything from a depressed real estate market in Hong Kong to liberalized foreign currency exchange control in South Africa fueling growth.

Another trend that has been several years in the making, but has surfaced strongly in the last year or so, is a more demanding foreign public for American foodservice concepts. Higher quality products, improved decor and more consistent service are what customers in maturing foreign markets are demanding. As a result, many established limited menu operations are upgrading decors and advertising high quality ingredients to erase fast food's plastic, snack food image.

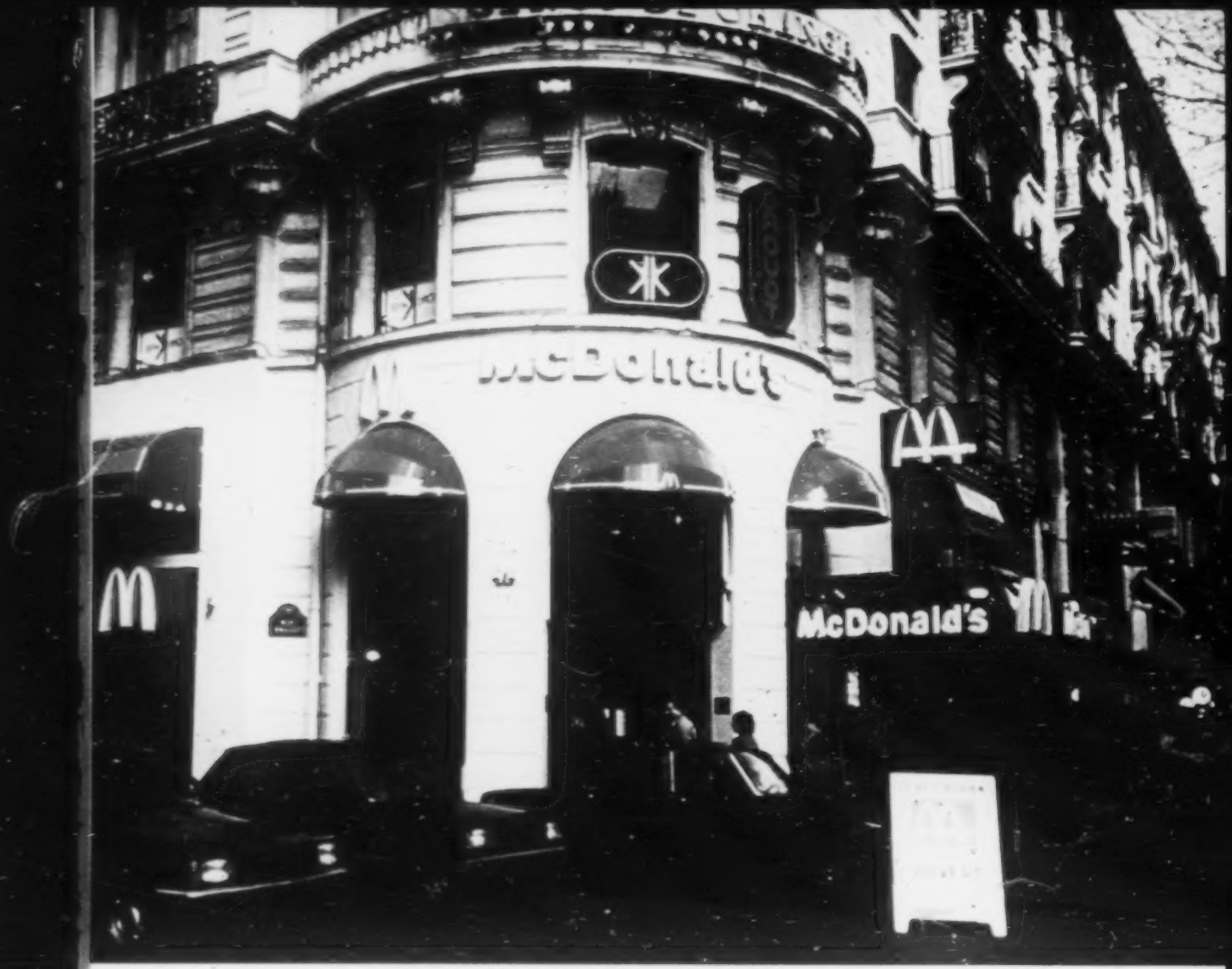
Another key factor in international expansion is that parent company investment in foreign markets is on the rise to help support the quality control and image building efforts. Investments are being directed to increasing equity positions in foreign operations, funding remodeling and construction, and establishing American management staffs overseas.

Many companies are beginning to realize what McDonald's and KFC have known for years–entry into foreign markets necessitates long term commitment from parent companies. Says Joseph Dubanoski, vice president of International Multifoods (parent of Mr. Donut): "My advice to anybody who wants to go into the international market is to be patient."

The following article offers insight into some key European markets for international expansion. The next issue of *Restuarant Business* will focus on Japan as well as other markets in Southeast Asia.

Although Europe is a very fragmented market in terms of languages, laws and business procedures, the cultures and dining habits of the Europeans are relatively homogenous and closer to those of America compared to Asia and the Mid East. So building the fast food market in the United Kingdom and continental Europe has been less a matter of fine tuning menus than creating an acceptable image for fast service type operations.

The problems that some American concepts are having in Europe




*With its new Paris unit, McDonald's hopes to reestablish its presence in the French marketplace.*

are not due to having the wrong food, but to a lack of operations, training and marketing support from parent companies. The single most important trend in the European fast food market today is a retrenching and reinvesting of company energies and money into existing markets. Either through buying back franchised units, creating joint ventures with well established European partners, or sending more company personnel to support franchisees, the fast food giants are tightening up the reins on European operations. Implied is their intention for more rapid future expansion, including more units and a broader customer base.

The emergence of a second level of multi-unit operators in the moderate price range is also an important recent development in Europe. Theme dining is no longer an isolated mom-and-pop proposition and is taking off very rapidly, especially in Britain through the conversion of pubs.

Though Wienerwald is no longer a mover and shaker in European markets and is regrouping after bankruptcy proceedings, other indigenous chains are getting agressive in Europe, including Wimpy International from Britain, Acor's Freetime from France, Nordsee from Germany and GB Quick from Belgium. In addition, Spain and Italy seem to be on the verge of some important fast food activity after 10 years of watching other European countries pass them by.

Food quickly prepared and casually served, in other words, fast food, was no revolution to Europe. Brits were picking up fish and chips at the local pub, and the French crunching their *croque monsieurs* in cafes long before Ronald McDonald came on the scene. In fact, London-based Wimpy International was selling hamburgers before McDonald's even broke into the market. What created the fast food revolution in Europe was not the food, but the

packaging—disposable wares, plastic chairs attached to plastic tables, standardized decor and volume production.

McDonald's, without question, has been the leader in creating this image, especially in England and Germany, countries with a high percentage of company-owned units. The company continues to pave the way, as it is now making inroads into Scandanavia and the Mediterranean.

In England and Germany, McDonald's has achieved market penetration by running a tight ship from day one. The parent company increased ownership in its British affiliate from 50 percent to 100 percent last year, and in Germany about half the stores are company-owned and the rest run by various franchisees. The quality control, training and fine marketing programs McDonald's has provided in these countries has paved the way for other operators, not only in the major cities, but in secondary locations. McDonald's has been very responsive to the need to adjust exterior fascade designs to not clash with historic neighborhoods, a factor that has helped it expand into the British countryside.

In Germany, McDonald's has been most innovative, introducing a drive-thru unit and an operation in the Frankfurt airport this year. Playlands are also a feature of McDonald's company-owned units throughout Europe.

McDonald's operations in France, opened in 1972, undoubtedly had something to do with the way the company approached other markets. Early in the '70s, the company granted Raymond Dayan a master license to develop Paris and the environs, and set him loose. In nine years, Dayan built 12 flourishing units, but two years ago he was stripped of his franchise for nonconformance to company standards after a lengthy court battle.

A company-owned unit has since reopened in Paris this year, in a chic shopping and entertainment district. Decor is extravagant with lots of wood, marble, wrought iron and cloth upholstery in an obvious effort to erase the former McDonald's image created by Dayan, whose small, sparsely decorated units were productive but short on atmosphere. The upscale decor and location is also a definite bid to attract a broader, older clientele in Paris, where the concept had been decidely oriented to teens. McDonald's has 16 units throughout the French provinces in secondary cities, but is at a disadvantage in Paris where many other companies already have multiple units.

McDonald's management in Europe has indicated it considers the potential market for its concept to be just as great in France as it is in Germany and Britain.

Burger King jumped in to compete with McDonald's in Europe and in fact has more units in Paris (5) and in Spain (18) than its competitor, but has been stymied recently by operational problems. With unprofitable company-owned units, franchisee rumblings and several store closings in Germany, Burger King is concentrating on already existing units and especially company-owned units before any agressive growth.

Says Burger King's John Weir: "Germany, Spain and England are the main areas of opportunity for us. We have franchisees in a number of other countries, but we are trying to concentrate on countries that have the greatest potential. We entered Europe in the late '70s and made some mistakes. We are in a turnaround stage in Europe."

To correct these mistakes BK parent company, Pillsbury, has budgeted $20 million for reorganization and sent William Prather to Europe as vice president for that region. In addition, Weir says that company president Jeffrey Campbell has "taken a personal interest in the European turnaround and will work hand in hand with Prather now that domestic operations are in good shape."

Remodeling efforts are being directed to both company-owned and franchised units in England and Germany. Last year, five of the 10 UK units were transformed with light wood, brass rails, ceiling fans,

On February 1984, the biggest German shopping center of 300,000 square feet was opened in Koblenz (near Frankfurt). It consists of more than 130 individual retail shops, as well as an attractive restaurant area.

ECE Corporation, one of the leading and most successful management companies for shopping centers in Germany, set up the Koblenz center. At present, this corporation owns and manages 16 centers in Germany as well as four centers in the U.S., managed by a subsidiary company. The total investment for this center amounts to over $90 million.

The aim of the planners of the Koblenz center was to combine the advantages of a small restaurant with those of a big one. Of course, success could occur by the proper combination of all the amenities and standards required for a modern restaurant.

There is every reason to believe that the hypothesis was right. Ten weeks after it opened the food fair of the Koblenz shopping center posted sales twice as high as projected. At present the 11 tenants are serving 3,000 customers and averaging sales of approximately $13,000 daily. Sales are increasing steadily; experts forecast annual sales of $5 to $6 million.

The leased area is 17,222 square feet and subdivided into 11 individual zones, and one for each tenant. All food fair restaurants share the sitting and recreation areas, dishwashing area, sanitary facilities and closets. Each tenant pays for 1,300 square feet (their rented area plus part of the sitting zone, etc. This totals an average of about $4,000 a month. In addition, tenants share the general expenses, e.g. for the sitting area, for cleaning and personnel, dishwashing, etc. which is approximately $10 a square foot. Advertising and promotion expenses, (about three percent of sales) are also divided among the tenants.

During the planning period it was

# Koblenz Shopping Center, Germany

of vital importance to find a well-balanced system of merchandising and to create diversified menus which would appeal to a broad customer base.

"Schlemmerland" shops include: Nett's (Meat and sausage); Baquetterie Koll (French bakery-ware); Potato Box (Baked potatoes); Krakau's Soup Pot (Soups and stews); Burgspiess (Roast and gyro grill specialties); Il Gelato (Italian ice cream); Schlecking's Small Specialties (Light snacks, natural foods); Golden Pancake (Pancakes); Berolla (Fruit juices and vegetarian specialties); Mother's Kitchen (Local dishes); Pizza Piazza (Pizza); La Forchetta (Italian pasta, meat dishes, salad-counter and bar).

One of the most interesting factors of this operation is that unlike in U.S. food courts which use disposables, Schlemmerland uses china. Each tenant selected a limited set of chinaware. All together, there are 14 different china items, as well as cutlery and three sizes of glasses.

The dirty tableware and cutlery of all the shops are washed at the central dishwashing area and supervised by the center management.

Printed cards on each table remind guests to bring their used plates and glasses to the dish-return conveyor. At present, this is being practiced by about 80 percent of the guests. The remaining plates are being cleared away by the center personnel. The clean dishes are returned to individual shops in special containers.

One of the greatest concerns of the planning team was to display food in an appetizing manner. It was necessary to create an attraction at each counter; to bring the cooking equipment into view of the guests, or to display the food in an attractive way. In order to obtain a fairly homogeneous appearance of the various shops an interior design package was offered to the individual tenant by the owner. Ninety percent of the tenants took advantage of this offer.

The main idea was to create an attractive environment, an atmosphere where people would feel at ease and where they would love to come back. This was realized by the use of glass, ceramics, wood and brass, which help create a warm, inviting ambience.

The average tenant invested between $40,000 and $75,000 each for their shops plus kitchen equipment. The owner bore the greater part of the mutually invested equipment of over $1 million and also bore the planning costs of the new concept as well as for the training.

The ECE Corp. wanted to develop new ideas in the catering business. As a result, not only German, but also European specialists are watching closely to see if the Koblenz center's success will keep on growing.

**Charles Fessel**

*Burgspiess, serving grill specialties, shows emphasis on food display.*

*Hanging plants, wood and brass accents combine to create a warm atmosphere.*

quarry tile floors and movable chairs. In addition, funds are being channeled into training and quality control to bring units up to U.S. standards.

"We are getting back to the basics of quality, service and cleanliness," says Weir, "rather than adding menu items." The strategy is working already, because in the units that have been remodeled and reorganized, Weir says "Business has improved markedly. There is clearly an expectation of an upscale experience in Europe." Weir also notes that the market is maturing in that more adults are eating fast food.

Another recent development that will give Burger King a boost in Europe is the agreement the company signed this year with the Army and Air Force Exchange Service to open Burger King units on military bases both in the U.S. and abroad. The guaranteed captive market that these institutional locations will provide will allow Burger King to have more management personnel in Europe and other foreign markets.

McDonald's also just signed a similar agreement with the U.S. Navy which will give it an entree into new markets worldwide, particularly in the Pacific.

Italy has been slow to get fast food, probably because most food is consumed at home with the family and also because labor costs are very high. Now, however, several big burger chains have entered the market, including Wendy's, GB Quick of Belgium and Burger One which is owned by a large Italian manufacturing concern. McDonald's has been working on getting into Italy, but has still not finalized an agreement to date. A&W is eyeing Europe and the company's Jerry Hoskins feels the concept's niche is still unexploited, but predicts it will be three to five years before any action will be taken.

Europe is going to get gourmet burgers in the near future, however. Fuddruckers, the hot 32-unit gourmet burger chain based in San Antonio, will debut their product in two European markets through a joint venture with a group of British investors. According to Fuddrucker's marketing v.p., Clark Crowdus, the group is committed to opening three units in West Germany and one unit in Britain within three years. Crowdus confirms that the Fuddrucker's abroad will be very similar to those in the U.S., which feature displays of fresh ingredients, freshly baked goods and ground meat, and big burgers cooked to order. In addition to the joint venture operation in Europe, Fuddruckers is in negotiation with a potential Japanese franchisee to open units in that country, but Crowdus could give no time frame for expected openings.

Europeans have been eating fast food chicken a la Weinerwald's for years, but fried chicken has not been important to the market. Now that Weinerwald's bankruptcy has put that chain into the sidelines, KFC is planning a major new push in markets where it already has a presence. Says KFC's Robert Hiatt: "We are underdeveloped in Europe mostly because of our own past inertia, and because we were concentrating elsewhere. We definitely feel there is good opportunity for growth there with only 38 stores today in continental Europe."

KFC has bought back a number of franchised stores in Germany and Holland to establish a strong parent company base. In Spain, where KFC

**U.S. RESTAURANT FRANCHISES OVERSEAS**
**Number of Establishments**

| Location | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|---|---|
| Canada | 940 | 1,074 | 1,074 | 1,196 | 1,383 | 1,227 | 1,220 | 1,172 |
| Mexico | 78 | 87 | 79 | 84 | 95 | 96 | 99 | 100 |
| Caribbean | 81 | 96 | 115 | 150 | 148 | 178 | 198 | 234 |
| United Kingdom | 428 | 433 | 421 | 454 | 494 | 511 | 442 | 481 |
| Continental Europe | 98 | 103 | 154 | 164 | 212 | 249 | 316 | 360 |
| Australia | 230 | 224 | 328 | 384 | 422 | 330 | 468 | 522 |
| Japan | 311 | 415 | 460 | 590 | 801 | 934 | 1,106 | 1,259 |
| Other Asia | 43 | 53 | 64 | 120 | 139 | 201 | 230 | 276 |
| Other* | 195 | 162 | 170 | 198 | 218 | 217 | 244 | 271 |
| **TOTAL** | **2,384** | **2,620** | **2,865** | **3,340** | **3,912** | **3,943** | **4,323** | **4,675** |

*Includes South America, Africa, New Zealand and Central America
Source: Franchising in the Economy (U.S. Department of Commerce)

# Bob Payton, London

One of the factors in foodservice operations that varies the most from country to country is liquor sales. The drinking habits of a people, in fact, are often cited as national characteristics. For instance, the French are stereotyped as wine connoisseurs, the Japanese as sippers of saki and the Russians as vodka quaffers.

In Britain the drinking habits of the inhabitants have indeed had an enormous impact on the foodservice industry. For centuries the British have frequented local pubs for the beer and ale as well as the socializing that was offered in these establishments. A handful of major brewers now control most of Britain's 75,000 pubs, and the pubs, in turn, have a stranglehold on liquor licenses. A license to sell liquor to individuals who aren't consuming food is almost impossible to obtain, according to Bob Payton, creator of London's Chicago Pizza Pie Factory. Thus, the cocktail bar, a strong revenue builder in the U.S., is relatively unusual in London's restaurants. What's more, according to Payton, many British pubs are dying because of the unimaginative and poor quality of food that they serve.

To help revive the industry and, at the same time, attract new generations of pub customers, the brewers are scrambling for new concepts, and Payton is trying to sell them one modeled after U.S. style singles bar.

Henry J. Bean's But His Friends All Call Him Hank Bar and Grill is eating and drinking establishment like Butch McGuire's on Chicago's Rush Street, says Payton. The key ingredients are good cocktails, pitchers of beer (unknown in the British market), juke boxes with hits from the 50s, friendly service, good nosh food, an open area for mingling, and seating.

Payton has convinced two breweries to open test units and both have established a good steady flow of traffic in less than six weeks after opening. "Our success has been even quicker at Henry J. Beans than at the Pizza Factory or the Rib Shack says Payton of his other London operations, which earn $1.3 and $1.2 million in sales annually.

In addition to establishing strong volume, Henry J. Beans promises to change the sales mix of the pub industry, which now rests at about 85 percent liquor and 15 percent food. "We have been running 60 percent drink and 40 percent food," says Payton. It should be noted that though food costs are traditionally lower than liquor costs in the U.K. it is obviously not in the best interests of the brewers to encourage less important drink sales. Rather than let the pub industry fade away and in the interests of developing new, forward looking outlets for their products however, British brewers are committed to food oriented concepts. Chile, nachos and big burgers are luring Beans' customers to eat while drinking.

More important than sales mix, is the customer mix targeted: "Bean's attracts people that hate pubs--dirty, smokey, crowded places with bad food," says Payton. "We attract rock stars, tourists, and the younger generation that is into the 50s."

Payton's main concern for the pub/singles bars and indeed for all his operations is delivering what has become known the world over as American service. Efficiency is part of this concept, "knowing the shorthand 'fries with mayo' as opposed to 'an order of french fries with mayonnaise,'" according to Payton. But more than efficiency, energy, drive and giving people a good time is what Payton demands of his people. He is currently actively recruiting Americans for his European operations in Britain and Spain which will soon be joined by a fish restaurant in London and a Chicago Pizza Pie Factory in Paris.

**Priscilla Andreiev**

*Payton among memorabilia in new Harry J. Beans unit*

*Pizza Pie Factory gives Londoners taste of Chicago*

*Paparazzi, one of four Italian restaurants operated by Sigla, S.A. in Madrid.*

*One of Sigla's eight VIPS (restaurant-drugstore) locations in Madrid.*

has had a presence but little growth for 10 years, the company has agreed on a agressive expansion plan with its joint venture partner there.

Pizza Hut, which only entered the European market a few years ago, has had very strong growth, with 73 units today and big plans for future expansion. Two events have contributed to this growth: First, Pizza Hut's agreement with Whitbred, a major U.K. brewery and pub operator to open freestanding Pizza Huts and "pizza in a pub" operations throughout Britain. According to a company spokesman, "Whitbred is having exceptional results, and has just signed a contract with GB Inno, a Belgian firm, to develop up to 28 Pizza Huts in Belgium and Luxemborg. Four units will be open within the year."

The introduction of its pan pizza product this year into U.K. and continental European units has been a more recent boost to Pizza Hut. Says the spokesman, "Our store average sales in Europe exceed those in the United States."

According to Jack Campbell of Pizza Time Theater, the success of American pizza parlors despite the density of indigenous mom and pop pizza places all over Europe is no surprise. "Europeans are used to pizzas with thin brown crust, almost dry, and little piles of toppings and no choice of sizes." The Pizza Time unit that opened in Paris three days after the domestic division declared bankruptcy is doing well according to Campbell. Even birthday parties have caught on though industry analysts thought the idea would never fly in France.

Certainly, the splash that Bob Payton made in the London market five years ago with his Chicago Pizza Pie Factory and its continuing success is a testament to Europeans' growing acceptance of pizza as a meal. Payton's own style of pizza, thick crust deep dish pie loaded with fresh tomato sauce, cheese and sausage, was quickly accepted in London and has had a similar reception in Barcelona where it debuted last year. A Chicago Pizza Pie Factory will open in Paris, appropriately on Valentine's Day next year. Heart-shaped pizzas will be the feature of the day.

In addition to a proliferation of sit down pizza operations, other types of theme dining concepts are springing up all over Europe.

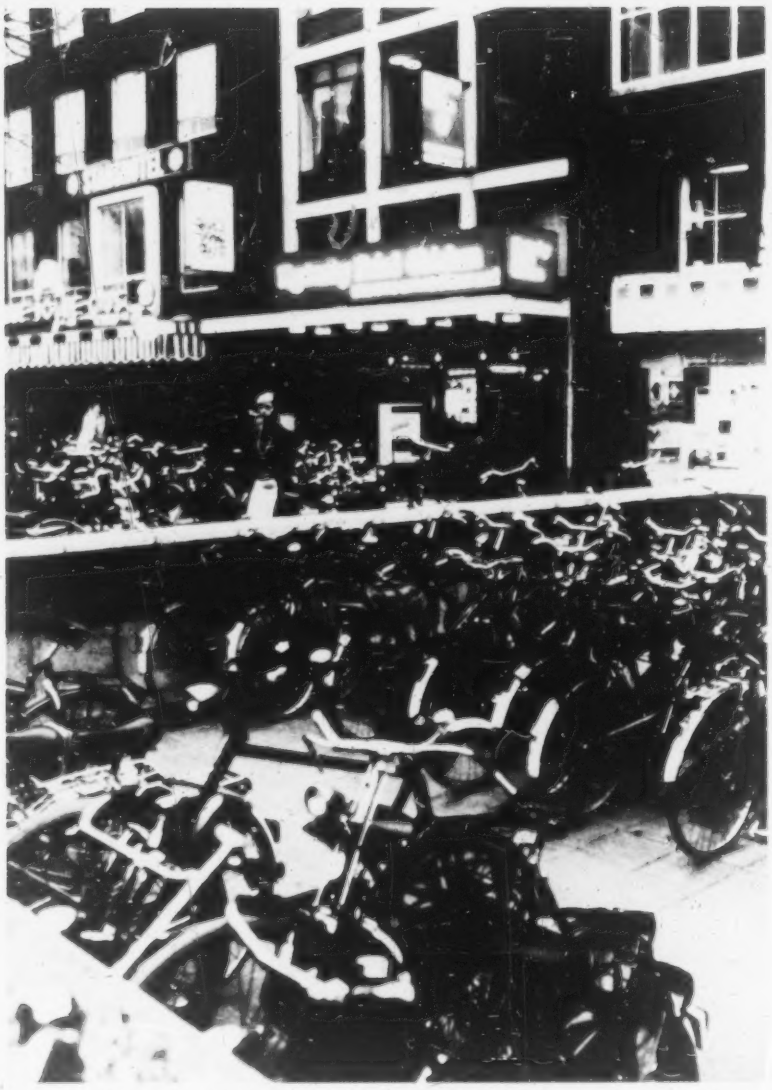
In England where he has a rib place, a fish house and a broad menu dinner house, Payton says that the breweries are getting into the theme restaurant business with a vengence.

There are approximately 75,000 pubs throughout the U.K., most controlled by a handful of major brewers who also control most of the "full on" liquor licenses, those that allow the sale of liquor unaccompanied by food. Pubs have traditionally made their money selling about 85 percent liquor and 15 percent food, according to Payton.

Because of increasingly slow traffic and failure to attract any younger generation customers, many of the operators have been experimenting with new foodservice concepts. Payton has come up with an idea of his own based on American style singles bars which two brewers are now

## The Major Chains' Foreign Markets

| Company/Headquarters | Total Units | Total outside US | Countries with units in operation or under construction | International Market Priorities |
|---|---|---|---|---|
| A & W Restaurants | 740 | | Japan, Singapore, Thailand, Taiwan, Hong Kong, Indonesia, Malaysia, Kuwait | This year opens in Thailand and Saudi Arabia. Aggressive expansion in Japan and Middle East. Expand Europe in 3-5 years. |
| Arby's | 1254 | | Japan, Virgin Islands, Malaysia, Philippines, Canada, Thailand | Open another 10 units in Canada by year-end '85, then 45 and 50 in '86 and '87. Open 10 units in Japan in coming year. Enter Kuwait and United Arab Emirates in coming year. Open in 5 years. |
| Burger King | 3827 | | 24 countries including Australia, Canada, France, Jamaica, UK, West Germany, Far East, Central and South America, Puerto Rico | Expansion by licensees by '87 in Europe, Latin America and Asia Pacific. Trying to turn around unprofitable European operations. |
| Chi-Chi's | 136 | | Canada | Doing market research to enter Mexico and Western Europe and Asia. Ready to expand in Canada. |
| Denny's | 1234 | | Japan, Hong Kong, Australia, Mexico, Singapore | Substantial expansion expected in Japan, Singapore and Mexico. Developing other unnamed markets. |
| Domino's Pizza | 1180 | | Australia and Canada | Expand in Australia and enter Japan within 2 years. Develop potential in Canada, Caribbean, Europe, Japan, West Germany and Hong Kong. |
| Fuddruckers | 52 | | Canada | Expanding in Canada with the aim of entering West Germany in the next 5 years. Negotiating with a Japanese franchisee. |
| Gadgets Cafe | 3 | | None | Negotiating agreement in Europe or Canada. |
| Ginn's East of Chicago | 3 | | Australia | Has company-owned in Australia. |
| Godfather's Pizza | 921 | | Canada | Expansion into Canada probable. Overseas expansion a long-term goal. |
| Hardee's | 2209 | | Saudi Arabia, Kuwait, Spain, Central America | Is close with licensees in Far East, Middle East and Central America. |
| Hungry Tiger | 47 | | Japan | Open 5 restaurants in Japan next year. Next 5 years. |
| International Dairy Queen | 4884 | | Panama, Canada, Japan, Australia, Bahrain, Saudi Arabia, United Arab Emirates, Trinidad | Has established Far East team to enter Taiwan, Korea and Thailand. |
| Kentucky Fried Chicken | 6125 | | 47 countries including Japan, UK, South Africa, Australia, and other countries in Asia, West Europe, Middle East, Caribbean, Latin America, South Pacific | Add 400 international units over next 5 years. Enter 17 European countries, South Pacific and Latin America. Continue aggressive expansion in Japan, UK, South Korea, South Africa and Australia. |
| McDonald's | 7819 | | 34 countries including Japan, Canada, West Germany, UK, Australia, Taiwan, Venezuela | Add 1,000 international units each year. Taiwan and Venezuela newly opened. Negotiations underway in Italy, South Korea, People's Republic of China and Columbia. |



*Bicycles line entranceway of a Kentucky Fried Chicken unit in Holland.*

testing (See sidebar). Whitbred is moving quickly with the Pizza Hut concept and several brewers have introduced Houlihan's style operations with names like The Vermont Exchange and the Rhode Island Diner.

Europe indeed may be the next hot market for Mexican food according to market research being done for Chi-Chi's. Jack Butorac, vice president of systems and administration, says that the company has had market research personnel in place in Brussels for six to nine months. "The company is very happy with the results," says Butorac who adds that research is also being done in Asian markets. "We are very confident we can go international beyond Canada," affirms Butorac.

In France, California-type, multi-unit theme restaurants with light garden like decor and innovative but medium priced menus are popping up with increasing frequency. One example is Stefany a concept created by the Hippopotamus steak chain group; another four-unit chain created by an independent restaurateur is called L'Amanguier.

And, in Hamburg, West Germany, an Old Spaghetti Factory unit was opened this year in a busy restaurant district that has several traditional Italian restaurants and a German steak house chain unit already. Says Gus Dussin, OSF's president, "the biggest thing we have going for us is that we are an American concept."

France leads all of Europe in the creation of home grown fast food formulas, and some of the most successful are beginning to provide some worthy competition for American fast food giants. Freetime, a chain featuring hamburger, steak and ham sandwiches with French trimmings, now has the enormous resources of Accor, the world's ninth largest hotel company, and Europe's biggest advertising agency, behind it. Well accepted in France, the units feature indoor and sidewalk seating for about 150 and a marriage of American technology and French taste. The company should have 30 units by the end of '84 and 50 by 1986.

According to a French trade magazine, a full 40 percent of the fast food market in France is earned by Louis Le Duff Enterprises with its Brioche Doree concept. The pastry and croissant sandwich formula done in the U.S. and Canada several years ago under the name Paris Croissant. According to LeDuff there will be 25 stores in North America and two baking factories by the end of 1985. In Europe, Broche Doree is expanding rapidly with 70 stores and 35 restaurants in France, Belgium, Holland, and England as of the end of '83.

Spain too, has an unusual and successful formula which should begin to take off in the near future. Sigla S.A., based in Madrid, was a super- market giant until it sold off its grocery stores to concentrate on foodservice. Today, it has a chain of eight family restaurants connnected with drugstores. The restaurants called VIPS attract patrons, and placement of drugstore displays at the entry to the operation encourages impulse buying. The group also has six restaurants and steadily increasing sales, up 40 percent last year over the previous year.

Overall, U.S. foodservice industry executives now see a sunnier future worldwide than in the past several years. In general, recovery of the domestic fast food industry and stabilizing of world economies are behind the change in climate. The forces behind the optimism for specific markets are as varied as the cultures and people of the world.

## The Major Chains' Foreign Markets

| Company/Headquarters | Total Units | Total outside US | Countries with units in operation or under construction | International Market Priorities |
|---|---|---|---|---|
| **Mr. Donut**<br>(International Multifoods)<br>Minneapolis, MN | 4000 | 480 | Japan, (units sold to Japanese franchisee), Canada, South Korea, Thailand, Philippines, Puerto Rico, Singapore, Kuwait, France, Panama, Taiwan, Saudi Arabia, Indonesia | Debut new concept in Japan in early '85. Enter Brazil, Venezuela in '85, 10-15 units in 2 or 3 years. Concentrate first on Asia, then Middle East, South and Central America, Europe. |
| **Old Spaghetti Factory**<br>(OSF International, Inc.)<br>Portland, OR | 21 | 3 | Japan, West Germany | Begin aggressive expansion in Japan and slow growth in Germany. |
| **Pizza Hut & Taco Bell**<br>(Pepsi Co.)<br>Wichita, KS | 4300* | 340 | Europe, UK, Japan, Asia, Australia | Increase number of non-US units to 425 by year end. Concentrate development in Germany, Canada, and Japan. Enter Belgium and Luxemburg. |
| **Pizza Inn**<br>Dallas, TX | 750 | 14 | Japan, Philippines, Kuwait, Hong Kong, South Africa, Mexico, Guam | This year enter Europe, Korea and Thailand. Re-enter Japan with new concept. Long term expansion in Asia and Middle East. |
| **Pizza Pronto**<br>Sarasota, FL | 23 | 0 | None | Master licensee in Canada has right to develop 150 units over 10 years. Expect 5 open by year end. |
| **Pizza Time Theater**<br>Sunnyvale, CA | 268 | 11 | France, Canada, Puerto Rico, Hong Kong, Singapore, Australia | Open in Taiwan this year. Continue slow growth with select franchisees in almost any foreign market. Negotiations in Middle East and Central America. |
| **Red Lobster**<br>(General Mills)<br>Orlando, FL | 367 | 4 | Japan, Canada | Testing international market, no priorities set yet. |
| **Shakey's**<br>San Francisco, CA | 453 | 101 | Japan, Philippines, Taiwan, Guam, Singapore, Malaysia, Indonesia, Hong Kong, Thailand, Mexico, Brunei, Saudi Arabia | Open in South Korea this year or next. Expand into Kuwait, Dubai, United Arab Emirates. International division separately owned. |
| **Subway Sandwiches and Salads**<br>Milford, CT | 360 | 1 | Bahrain | Open in Puerto Rico by 1/85, 3 units in next year. One more in Bahrain and expand to Saudi Arabia and Japan in long term. Enter Europe, possibly Belguim first. |
| **Swenson's Ice Cream**<br>Phoenix, AZ | 384 | 67 | Kuwait, Hong Kong, Japan, Mexico, Saudi Arabia, Singapore | Newly formed Australian subsidiary to develop rapidly in that country. Expand to 95 international units by year end. |
| **Taco Time**<br>Eugene, OR | 212 | 25 | Canada, Venezuela | Concentrating on Domestic expansion. |
| **Wendy's**<br>Dublin, OH | 2877 | 169 | 12 countries, including: Australia, Canada, Italy, Japan, Malaysia, UK, West Germany | Aggressive expansion in Europe and Asia. Soon to enter Mexico. |
| **Winchell's Donut House**<br>La Mirada, CA | 859 | 32 | Philippines, Japan, South Korea, Guam | Concentrate on existing markets only. |

*Indicates most unit figures are as of 6/84 or most recent quarter available